



FEDERAL RESERVE SYSTEM

12 CFR Parts 225 and 252

[Regulations Y and YY; Docket No. R-1548; RIN 7100 AE-59]

Amendments to the Capital Plan and Stress Test Rules

AGENCY: Board of Governors of the Federal Reserve System (Board).

ACTION: Notice of proposed rulemaking with request for comment.

SUMMARY: The Board is inviting comment on a notice of proposed rulemaking to revise the capital plan and stress test rules for bank holding companies with \$50 billion or more in total consolidated assets and U.S. intermediate holding companies of foreign banks. Under the proposal, large and noncomplex firms, defined below, would no longer be subject to the provisions of the Board's capital plan rule whereby the Board may object to a capital plan on the basis of qualitative deficiencies in the firm's capital planning process. In connection with this modification, large and noncomplex firms would no longer be subject to the qualitative assessment in Comprehensive Capital Analysis and Review (CCAR), but would remain subject to a quantitative assessment in CCAR. The qualitative assessment of the capital plans of large and noncomplex firms instead would be conducted outside of CCAR through the supervisory review process. For purposes of the proposal, a bank holding company or U.S. intermediate holding company with total consolidated assets of \$50 billion or greater but less than \$250 billion, on-balance sheet foreign exposure of less than \$10 billion, and nonbank assets of less than \$75 billion would be considered a large and noncomplex firm. The proposal would also modify reporting requirements for large and noncomplex firms to reduce burdens by raising materiality thresholds, reducing the scope of the data collection on these firms' stress test results, and reducing supporting documentation requirements. For all bank holding companies

subject to the capital plan rule, the proposal would simplify the initial applicability provisions for the capital plan and stress test rules, reduce the amount of additional capital distributions that a bank holding company may make during a capital plan cycle without seeking the Board's prior approval, and extend the range of potential as-of dates for the trading and counterparty scenario component used in the stress test rules. The proposal would also amend the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) to include new line item 17 of PC-B Memoranda (Total nonbank assets of a holding company that is subject to the Federal Reserve Board's capital plan rule) for purposes of identifying the large and noncomplex firms. All other bank holding companies subject to the capital plan rule that are not large and noncomplex firms would remain subject to objection to their capital plan based on qualitative deficiencies under the rule.

The proposal would not apply to bank holding companies with total consolidated assets of less than \$50 billion or to any state member bank or savings and loan holding company.

DATES: Comments must be received by November 25, 2016.

ADDRESSES: You may submit comments, identified by Docket No. R-1548 and RIN 7100 AE-59 by any of the following methods:

- **Agency Web site:** <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.aspx>.
- **Federal eRulemaking Portal:** <http://www.regulations.gov>. Follow the instructions for submitting comments.
- **Email:** regs.comments@federalreserve.gov. Include the docket number and RIN number in the subject line of the message.
- **Fax:** (202) 452-3819 or (202) 452-3102.

- **Mail:** Robert deV. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551.

All public comments will be made available on the Board's Web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.aspx> as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room 3515, 1801 K Street, NW (between 18th and 19th Streets NW), Washington, DC 20006 between 9:00 a.m. and 5:00 p.m. on weekdays. For security reasons, the Board requires that visitors make an appointment to inspect comments. You may do so by calling (202) 452-3684. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments.

FOR FURTHER INFORMATION CONTACT: Lisa Ryu, Associate Director, (202) 263-4833, Richard Naylor, Associate Director, (202) 728-5854, Molly Mahar, Deputy Associate Director, (202) 973-7360, Constance Horsley, Assistant Director, (202) 452-5239, Mona Touma Elliot, Manager, (202) 912-4688, Celeste Molleur, Manager (202) 452-2783, Elizabeth MacDonald, Manager, (202) 475-6316, Christine Graham, Senior Supervisory Financial Analyst, (202) 452-3005, Seth Ruhter, Senior Supervisory Financial Analyst, (202) 452-3997, Joseph Cox, Supervisory Financial Analyst, (202) 452-3216, Kevin Tran, Supervisory Financial Analyst, (202) 452-2309, or Hillel Kipnis, Financial Analyst, (202) 452-2924, Division of Banking Supervision and Regulation; Laurie Schaffer, Associate General Counsel, (202) 452-2272, Benjamin McDonough, Special Counsel, (202) 452-2036, Julie Anthony, Counsel, (202) 475-6682, Brian Chernoff, Senior Attorney, (202) 452-2952, or Amber Hay,

Attorney, (202) 973-6997, Legal Division, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551. Users of Telecommunication Device for Deaf (TDD) only, call (202) 263-4869.

SUPPLEMENTARY INFORMATION:

I. Background

A. Description of capital plan and stress test requirements

Capital planning and stress testing are two key components of the Board's supervisory framework for large financial companies.¹ Under Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Board of Governors of the Federal Reserve System (Board) is directed to establish enhanced prudential standards for bank holding companies with total consolidated assets of \$50 billion or more.² As part of this requirement, the Board must conduct annual supervisory stress tests with respect to these bank holding companies and issue regulations requiring these bank holding companies to conduct

¹ In addition to bank holding companies with total consolidated assets of \$50 billion or more, the changes in this proposed rulemaking would also apply to any nonbank financial company supervised by the Board that becomes subject to the capital planning and stress test requirements pursuant to a rule or order of the Board and to U.S. intermediate holding companies of foreign banking organizations in accordance with the transition provisions under the capital plan rule and subpart O of the Board's Regulation YY (12 CFR part 252). Currently, no nonbank financial companies supervised by the Board are subject to the capital planning or stress test requirements. A U.S. intermediate holding company that was required to be established by July 1, 2016, and that was not previously subject to the Board's capital plan rule is required to submit its first capital plan in 2017 and will become subject to the Board's stress test rules beginning in 2018. References to "bank holding companies" or "firms" in this preamble should be read to include all of these companies, unless otherwise specified.

² 12 U.S.C. 5365.

semi-annual company-run stress tests.³ The Board adopted final rules to implement these requirements on October 12, 2012.⁴

The Dodd-Frank Act also requires the enhanced prudential standards established by the Board to increase in stringency based on several factors, including the size and risk characteristics of the bank holding companies subject to the requirements.⁵ In prescribing more stringent prudential standards, including stress test requirements, the Board may differentiate among bank holding companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board deems appropriate.⁶

B. Implementation of capital plan and stress test requirements

Consistent with the Dodd-Frank Act mandate, the Board conducts an annual assessment of the capital planning and post-stress capital adequacy of bank holding companies with total consolidated assets of \$50 billion or more. All U.S. intermediate holding company subsidiaries of foreign banking organizations will be subject to the Board's capital plan rule beginning in 2017. The Board's capital planning and stress testing framework for these firms consists of two

³ 12 U.S.C. 5365(i).

⁴ 77 FR 62380 (October 12, 2012). See 12 CFR part 252, subparts E and F. On October 12, 2012, as required by section 165(i) of the Dodd-Frank Act, the Federal Reserve also adopted a final rule to impose company-run stress testing requirements for state member banks and savings and loan holding companies with assets of more than \$10 billion and bank holding companies with assets of more than \$10 billion but less than \$50 billion, which is codified at subpart B of 12 CFR part 252. The Federal Reserve is not proposing to adjust the requirements in subpart B of 12 CFR part 252 at this time.

⁵ See 12 U.S.C. 5365(b).

⁶ 12 U.S.C. 5363(a)(2)(A).

related programs: CCAR, which is conducted pursuant to the Board's capital plan rule,⁷ and the Dodd-Frank Act stress tests, which is conducted pursuant to the Board's stress test rules.⁸

In CCAR, the Board assesses the internal capital planning processes of bank holding companies and these companies' ability to maintain sufficient capital to continue their operations under expected and stressful conditions. Pursuant to the capital plan rule, each bank holding company must submit an annual capital plan to the Board that describes its capital planning processes and capital adequacy assessment. The capital plan must include (i) an assessment of the expected uses and sources of capital over the planning horizon; (ii) a detailed description of the bank holding company's processes for assessing capital adequacy; (iii) the bank holding company's capital policy; and (iv) a discussion of any expected changes to the bank holding company's business plan that could materially affect its capital adequacy.⁹ A bank holding company may be required to include other information and analysis relevant to its capital planning processes and internal capital adequacy assessment. The Federal Reserve reviews each capital plan submission and may object to a bank holding company's capital plan based on criteria identified in the rule.¹⁰ If the Federal Reserve objects to a bank holding company's capital plan, the bank holding company may not make any capital distributions unless the Federal Reserve indicates in writing that it does not object to such distributions.¹¹

⁷ 12 CFR 225.8.

⁸ Subparts E and F of the Board's Regulation YY (12 CFR 252, subparts E and F).

⁹ See 12 CFR 225.8(e)(2).

¹⁰ See 12 CFR 225.8(f).

¹¹ See 12 CFR 225.8(f)(2)(iv).

Pursuant to the Board's stress test rules, the Board conducts supervisory stress tests of bank holding companies with total consolidated assets of \$50 billion or more, and these bank holding companies are required to conduct annual and mid-cycle company-run stress tests. In conducting the supervisory stress tests, the Board projects balance sheets, risk-weighted assets, net income, and resulting post-stress capital levels and regulatory capital ratios over a planning horizon under baseline, adverse, and severely adverse scenarios, incorporating capital action assumptions prescribed in the Board's stress test rules.¹² Similarly, for the annual company-run stress tests, a bank holding company uses the same planning horizon, capital action assumptions, and baseline, adverse, and severely adverse scenarios used in the supervisory stress test.¹³

C. Review of capital plan and stress test requirements

The 2015 capital planning cycle marked the fifth anniversary of CCAR. In 2015, the Board initiated a series of meetings, including with bank officials, debt and equity-side market analysts, public interest groups, and academics, to solicit their views on their overall evaluation of, and recommendations for, the CCAR program. The Board received a wide range of comments on the program. While meeting participants generally expressed the view that CCAR has been successful in strengthening the capital positions and improving the risk-management capabilities of the bank holding companies subject to CCAR, some participants

¹² See 12 CFR 252.44.

¹³ See 12 CFR 252.54. For the mid-cycle company-run stress tests, each bank holding company must develop and employ baseline, adverse, and severely adverse scenarios that are appropriate for its risk profile and operations. See 12 CFR 252.55(b).

provided suggestions for improving or strengthening various aspects of the program.¹⁴ Notably, representatives from bank holding companies with less than \$250 billion in total consolidated assets recommended that the Board modify CCAR to reduce burdens for these bank holding companies by establishing a separate capital planning program that would reduce the associated regulatory reporting requirements and extend reporting timelines.

In December 2015, the Board released capital planning guidance in Supervision and Regulation (SR) Letters 15-18 and 15-19 to consolidate its existing expectations and clarify that the Board's expectations for capital planning differ depending on the size and complexity of the firm.¹⁵ The guidance provided that firms with \$250 billion or more in total consolidated assets, firms with \$10 billion or more in foreign exposures, and firms otherwise subject to the Large Institution Supervision Coordinating Committee (LISCC) supervisory framework (typically the largest, most internationally active bank holding companies) would be subject to heightened expectations in all aspects of capital planning, as compared to other large, but less complex firms. The guidance reflects an important objective of the Federal Reserve, which is to tailor supervisory expectations for firms with a lower systemic risk profile, while

¹⁴ In addition to the changes in this proposal, the Federal Reserve may propose further adjustments to CCAR in the future in response to these comments.

¹⁵ Board of Governors of the Federal Reserve System, Division of Banking Supervision and Regulation, "Federal Reserve Supervisory Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms," SR Letter 15-18 (December 18, 2015), available at www.federalreserve.gov/bankinforeg/srletters/sr1518.htm ("SR Letter 15-18"); Board of Governors of the Federal Reserve System, Division of Banking Supervision and Regulation, "Federal Reserve Supervisory Assessment of Capital Planning and Positions for Large and Noncomplex Firms," SR Letter 15-19 (December 18, 2015), available at www.federalreserve.gov/bankinforeg/srletters/sr1519.htm ("SR Letter 15-19").

simultaneously protecting financial stability and improving the resiliency of and the availability of credit from the largest and most complex firms.¹⁶

While SR Letter 15-19 outlined tailored capital planning expectations for large and noncomplex firms, the high public profile of the CCAR qualitative review could create a risk that large and noncomplex firms will over-invest in stress testing and capital planning processes that are unnecessary to adequately capture the risks of these firms. In this proposal, the Board is proposing to further tailor its stress testing and capital planning requirements, as discussed below.

II. Proposed Revisions to the Capital Plan and Stress Test Rules

A. Overview

This proposal would revise the standards that the Board uses to review capital plans for bank holding companies that have total consolidated assets of at least \$50 billion but less than \$250 billion, on-balance sheet foreign exposure of less than \$10 billion, and nonbank assets of less than \$75 billion (each, a large and noncomplex firm). Specifically, these large and noncomplex firms under the proposal would no longer be subject to the provisions of the Board's capital plan rule whereby the Board may object to a firm's capital plan based on unresolved supervisory issues or concerns with the assumptions, analysis, and methodologies in the firm's capital plan (qualitative objection criteria, as described further in section II.D of this preamble below). In connection with this change, large and noncomplex firms would remain subject to a quantitative assessment in CCAR and would no longer be subject to the

¹⁶ Daniel K. Tarullo (2015). "Application of Enhanced Prudential Standards to Bank Holding Companies" testimony delivered before the Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C., March 19, available at: www.federalreserve.gov/newsevents/testimony/tarullo20150319a.htm.

qualitative assessment in CCAR. The proposal would also amend the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) to include a new line item for purposes of identifying the large and noncomplex firms. All other bank holding companies subject to the capital plan rule (a LISCC firm, if the bank holding company is subject to the LISCC supervisory framework,¹⁷ or large and complex firm, if the bank holding company otherwise has total consolidated assets of \$250 billion or more, on-balance sheet foreign exposure of \$10 billion or more, or nonbank assets of \$75 billion or more) would remain subject to objection to their capital plan based on qualitative deficiencies under the rule.

The proposal would also modify associated regulatory reporting requirements for large and noncomplex firms to collect less detailed information on these firms' stress test results and raise the materiality threshold for reporting on specific portfolios. Under the proposal, large and noncomplex firms would no longer be subject to the qualitative assessment in CCAR beginning with the 2017 CCAR cycle, and a large and noncomplex firm would be able to implement the modified reporting requirements either immediately or after a six-month delay.

In addition, the proposal would simplify the timing of the initial applicability of the capital plan and stress test rules for all bank holding companies that cross the \$50 billion asset threshold to become subject to these rules. These revisions are intended to reduce compliance burdens associated with the capital plan and stress test rules.

The proposal would also revise the de minimis exception threshold for capital distributions under the capital plan rule. As noted, as part of CCAR, the Federal Reserve

¹⁷ Based on the current population of bank holding companies, all LISCC firms have total consolidated assets of \$250 billion or more, on-balance sheet foreign exposure of \$10 billion or more, or nonbank assets of \$75 billion or more.

evaluates the planned capital distributions, such as dividends or repurchases of common stock, that were included in a capital plan. Under the capital plan rule, a bank holding company may make the capital distributions that were included in the capital plan, provided that the Federal Reserve does not object to the plan.¹⁸ Generally, a bank holding company must obtain the Federal Reserve's prior approval before making additional capital distributions above the dollar amount described in its capital plan.¹⁹ However, a bank holding company that is well capitalized, as defined in 12 CFR 225.2(r), may make additional capital distributions above such dollar amount without seeking the Board's prior approval if certain other requirements are met. These include the requirement that the total distribution amount not exceed 1.00 percent of the bank holding company's tier 1 capital for the year-period following the Federal Reserve's action on the bank holding company's capital plan (the de minimis exception).²⁰

The proposal would amend the de minimis exception in two ways for all bank holding companies subject to the capital plan rule. First, the proposal would establish a one-quarter "blackout period" while the Federal Reserve is conducting CCAR (the second quarter of a calendar year), during which bank holding companies would not be able to submit a notice to use the de minimis exception. Second, the proposal would lower the de minimis limitation from 1.00 percent to 0.25 percent of a bank holding company's tier 1 capital, beginning April 1, 2017.

The proposal includes an additional blackout period for additional capital distribution requests that require prior approval from the Federal Reserve. This additional blackout period

¹⁸ See 12 CFR 225.8.

¹⁹ See 12 CFR 225.8(g)(1).

²⁰ See 12 CFR 225.8(g)(2).

would also apply during the calendar quarter in which the Federal Reserve conducts the CCAR exercise. The proposed blackout periods for both the de minimis exception and prior approval requests are expected to be effective during the second quarter of 2017, in which the Federal Reserve will be conducting CCAR 2017.

The last proposed change to the capital plan rule relates to the trading and counterparty component of the stress test. Under the Board's stress test rules, the Board may require a bank holding company with significant trading activity to include a trading and counterparty component (global market shock) in its adverse and severely adverse scenarios for its company-run stress tests.²¹ Currently, the Board must select a date between January 1 and March 1 of the calendar year of the current stress test cycle for the "as-of" date for the data used as part of the global market shock components of the bank holding company's adverse and severely adverse scenarios.²² For the reasons described in section III.B of this preamble, the proposal would extend the range of dates from which the Board may select the as-of date for the global market shock to October 1 of the calendar year preceding the year of the stress test cycle to March 1 of the calendar year of the stress test cycle.

As described in section III.C of this preamble, the proposal would also remove transition provisions in the capital plan and stress test rules that are no longer operative.

B. Identifying large and noncomplex firms

Under the proposal, a bank holding company would be considered large and noncomplex if, as of December 31 of the calendar year prior to the capital plan cycle, it has

²¹ See 12 CFR 252.14(b)(2).

²² *Id.*

average total consolidated assets of \$50 billion or greater but less than \$250 billion,²³ total on-balance sheet foreign exposure of less than \$10 billion,²⁴ and average total nonbank assets of less than \$75 billion.

The proposed thresholds of \$250 billion in average total consolidated assets and \$10 billion in foreign exposure identify the largest and most internationally active bank holding companies, whose failure or distress could pose significant risks to U.S. financial stability. The proposed thresholds of \$250 billion in total consolidated assets and \$10 billion in foreign exposure identify the largest and most internationally active bank holding companies, the failure or distress of which could pose significant risks to U.S. financial stability. These thresholds would be consistent with thresholds used in the Board's capital and liquidity requirements to identify companies that may present elevated risk because of their size and the amount of their cross-border exposure.²⁵

In addition to thresholds based on a bank holding company's average total consolidated assets and total on-balance sheet foreign exposure, the Board is proposing an additional

²³ The proposal would not amend the existing methodology for determining average total consolidated assets under the capital plan rule. Under the rule, average total consolidated assets equals the amount of total assets reported on the bank holding company's Consolidated Financial Statements for Holding Companies (FR Y-9C), measured as an average over the preceding four quarters. If a bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, its total consolidated assets are measured as the average of its total consolidated assets, as reported on the FR Y-9C, for the most recent quarter or consecutive quarters, as applicable. See 12 CFR 225.8(b)(2).

²⁴ Consolidated total on-balance sheet foreign exposure would be based on a calculation of a bank holding company's total foreign countries cross-border claims on an ultimate-risk basis, plus total foreign countries claims on local residents on an ultimate-risk basis, plus total foreign countries fair value of foreign exchange and derivative products, calculated at the most recent year-end in accordance with the Federal Financial Institutions Examination Council (FFIEC) 009 Country Exposure Report.

²⁵ See, e.g., 12 CFR 217.100(b), 12 CFR 249.1(b).

threshold to identify a bank holding company as large and noncomplex based on the amount of its total nonbank assets. The proposed nonbank asset threshold of \$75 billion would separate out bank holding companies that are significantly engaged in activities outside the business of banking, which have the potential to generate additional systemic risk and therefore warrant heightened capital planning standards. The proposed threshold would also facilitate heightened supervisory oversight with respect to the capital planning practices for a bank holding company that engages in activities through legal entities that are not subject to direct regulation and supervision applicable to a regulated banking entity, which may involve a broader range of risks and more complex structure requiring more sophisticated risk management.

As discussed in more detail below, under the proposal, a LISCC or large and complex firm would remain subject to the qualitative objection criteria, the CCAR qualitative review process, and the current more detailed reporting requirements. The qualitative objection criteria, CCAR qualitative review process, and more detailed reporting requirements would continue to provide for greater supervisory oversight to ensure that these LISCC firms and large and complex firms are effectively identifying and managing risks that may arise in connection with their greater size, international activity, or nonbanking operations. For bank holding companies with significant nonbanking activities in particular, the CCAR qualitative assessment supplements the existing regulatory capital framework by incorporating a comprehensive review of a bank holding company's processes to identify, aggregate, and measure risks from all of its activities, including nonbanking activities. The added scrutiny of the qualitative CCAR review helps to ensure that such LISCC firms and large and complex firms are effectively identifying and managing their combined risks on a consolidated basis.

In developing the proposal, the Federal Reserve considered a range of nonbank asset thresholds between \$50 billion and \$125 billion. The proposed \$75 billion threshold was chosen based on historical failures and bankruptcies of large financial firms and the risk profile of the current population of bank holding companies.

At the low end of the range, a \$50 billion nonbank asset threshold would be analogous to the total asset threshold used in section 165 of the Dodd-Frank Act for applying enhanced prudential standards to a bank holding company.²⁶ However, based on the current population of bank holding companies, a \$50 billion nonbank asset threshold appeared to be too low, as many bank holding companies at this level conduct primarily traditional bank-like activities (such as mortgage lending) through nonbank subsidiaries. At the high end of the range, the Board considered a nonbank asset threshold of \$125 billion, which would scope in bank holding companies with at least a majority of their assets as nonbank assets, indicating a potentially greater complexity of structure or activities and therefore greater risk.²⁷ Based on the current population of firms, a nonbank asset threshold of \$125 billion would include the most complex U.S. bank holding companies with the largest derivatives trading and capital markets activities, but may exclude some bank holding companies with risk profiles that are significantly concentrated in riskier activities, particularly U.S. intermediate holding companies of foreign banking organizations that engage in significant capital markets activities. In particular, a threshold of \$125 billion in nonbank assets would exclude companies

²⁶ 12 U.S.C. 5365.

²⁷ A firm with total consolidated assets of \$250 billion or more would have been included by the total consolidated assets threshold, so \$125 billion or more in nonbank assets would constitute at least 50 percent of the assets of a bank holding company with total consolidated assets less than \$250 billion.

that engage in equities trading, prime brokerage, and investment banking activities, and therefore have risk profiles that are more similar to those of the most complex U.S. financial firms than to the risk profiles of the smaller, less complex bank holding companies.

The potential complexity and interconnectedness of a bank holding company with significant nonbank assets heightens the need for such a bank holding company to be subject to an intensive annual review of its capital planning processes and risk management based on its idiosyncratic risk profile, through the CCAR qualitative assessment and qualitative objection criteria (as defined below). The proposed nonbank asset threshold of \$75 billion would be slightly below the midpoint of the \$50-to-\$125 billion range of potential nonbank asset thresholds considered. Based on the current population of bank holding companies, this proposed threshold would include large firms with complex capital markets activities, but would not include firms with less complex structures or activities. This result would be consistent with the proposal's objective of focusing supervisory resources and more detailed reporting requirements on firms with elevated risk profiles.

The Board invites comment on whether the proposed thresholds identify firms for which the proposed relief would be most appropriate in light of the goals and purposes of the CCAR exercises.

Question 1: What other standards, such as revenue related to nonbanking activities, should the Board consider to identify large and noncomplex firms?

C. Measurement and reporting of average total nonbank assets

1. Measurement for CCAR 2017

In order to determine whether a bank holding company meets the \$75 billion average total nonbank asset threshold for CCAR 2017, average total nonbank assets under the

proposal would equal (i) total combined nonbank assets of nonbank subsidiaries, as reported on line 15a of Schedule PC-B of the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) as of December 31, 2016; plus (ii) the total amount of equity investments in nonbank subsidiaries and associated companies as reported on line 2a of Schedule PC-A of the FR Y-9LP as of December 31, 2016, (except that any investments reflected in (i) may be eliminated); plus (iii) assets of each Edge and Agreement Corporation, as reported on the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) as of December 31, 2016, to the extent such corporation is designated as “Nonbanking” in the box on the front page of the FR 2886b; minus (v) assets of each federal savings association, federal savings bank, or thrift subsidiary, as reported on the Call Report as of December 31, 2016.

Question 2: What, if any, additional burdens would the proposed measurement of nonbank assets create for firms for the December 31, 2016, measurement date? What steps should the Board take to address any such burdens (for example, should the Board permit firms to net intercompany exposures among all nonbank subsidiaries for purposes of the December 31, 2016, report)?

2. Measurement for capital plan cycles after 2017

For purposes of capital plan cycles after 2017, the \$75 billion average total nonbank asset threshold would be the average of the total nonbank assets of a holding company, calculated in accordance with the instructions to the FR Y-9LP, for the four most recent consecutive quarters or, if the bank holding company has not filed the FR Y-9LP for each of the four most recent consecutive quarters, for the most recent quarter or consecutive quarters, as applicable.

The proposal would amend the FR Y-9LP to include new line item 17 of PC-B Memoranda (Total nonbank assets of a holding company that is subject to the capital plan rule) for purposes of identifying large and noncomplex firms. Under the proposal, a bank holding company with total consolidated assets of \$50 billion or more would be required to report on the FR Y-9LP the average dollar amount of its total nonbank assets of consolidated nonbank subsidiaries, whether held directly or indirectly or held through lower-tier holding companies, and its direct investments in unconsolidated nonbank subsidiaries, associated nonbank companies, and those nonbank corporate joint ventures over which the bank holding company exercises significant influence (collectively, “nonbank companies”).²⁸

Nonbank companies, for purposes of this measure, would exclude (i) all national banks, state member banks, state nonmember insured banks (including insured industrial banks), federal savings associations, federal savings banks, and thrift institutions (collectively, “depository institutions”) and (ii) except for an Edge or Agreement Corporation designated as “Nonbanking” in the box on the front page of the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b), any subsidiary of a depository institution (“depository institution subsidiary”).

For purposes of this measure, a reporting bank holding company should eliminate all intercompany assets and operating revenue among the nonbank companies, but should include

²⁸ For purposes of the FR Y-9LP, (i) a subsidiary is a company in which the reporting bank holding company directly or indirectly owns more than 50 percent of the outstanding voting stock; (ii) an associated company is a corporation in which the reporting bank holding company, directly or indirectly, owns 20 to 50 percent of the outstanding voting stock and over which the reporting bank holding company exercises significant influence; and (iii) a corporate joint venture is a corporation owned and operated by a group of companies, no one of which has a majority interest, as a separate and specific business or project for the mutual benefit of that group of companies.

assets and operating revenue with the reporting bank holding company; any depository institution; any depository institution subsidiary. For a reporting bank holding company that is a subsidiary of a foreign banking organization, the reporting bank holding company should include assets and operating revenue with any branch or agency of the foreign banking organization or any non-U.S. subsidiary, non-U.S. associated company, or non-U.S. corporate joint venture of the foreign banking organization that is not held through the reporting bank holding company, should be included. For example, a reporting bank holding company should eliminate the loans made by one nonbank company to a second nonbank company, but should not eliminate loans made by one nonbank company to the reporting bank holding company; depository institution; depository institution subsidiary; or for a reporting bank holding company that is a subsidiary of a foreign banking organization, any branch or agency of the foreign banking organization or any non-U.S. subsidiary, non-U.S. associated company, or non-U.S. corporate joint venture of the foreign banking organization that is not held through the reporting bank holding company.

The proposed line item would require a firm to report nonbank assets based on an average over the quarter, as calculated on either a daily, weekly, or monthly basis. Using an average would further the integrity of the nonbank assets measure by ensuring that it is not unduly influenced by end-of-quarter fluctuations in nonbank assets; however, requiring a daily or weekly average may impose undue burden on firms to perform this calculation. The Board is therefore seeking comment as to whether a daily, weekly, or monthly average would be most appropriate for this calculation. This new line item is expected to be effective for the reporting period as of March 31, 2017.

Question 3: What are the costs and benefits of using a daily, weekly, or monthly average for purposes of calculating nonbank assets?

Question 4: What other measures for identifying large and noncomplex firms should the Board consider? For instance, should the Board consider evaluating the percent of revenues from nonbank activities to total revenue, in addition to the asset measure?

D. Elimination of CCAR qualitative assessment and objection for large and noncomplex firms

Capital planning is a core aspect of financial and risk management for all bank holding companies that helps ensure the financial strength and resilience of a firm. Strong forward-looking capital planning processes ensure that a bank holding company with total consolidated assets of \$50 billion or more has sufficient capital to absorb losses and continue to lend to creditworthy businesses and consumers, including during times of stress. The Board expects all bank holding companies with total consolidated assets of \$50 billion or more to maintain sound capital planning processes on an ongoing basis.

The Board has different expectations for sound capital planning and capital adequacy depending on the size, scope of operations, activity, and systemic risk profile of a firm. Consistent with those different expectations, under the proposal, large and noncomplex firms would no longer be subject to the provisions of the Board's capital plan rule whereby the Board may object to a capital plan on the basis of deficiencies in the firm's capital planning process or unresolved supervisory issues, that is, large and noncomplex firms would no longer be subject to the CCAR qualitative assessment.

In the current CCAR process, the Federal Reserve conducts a qualitative assessment of the strength of each bank holding company's internal capital planning process and a

quantitative assessment of each bank holding company's capital adequacy in the calendar quarter in which the bank holding company submits a capital plan. In the qualitative assessment, the Federal Reserve evaluates the extent to which the analysis underlying each bank holding company's capital plan comprehensively captures and addresses potential risks stemming from company-wide activities. In addition, the Federal Reserve evaluates the reasonableness of a bank holding company's capital plan, the assumptions and analysis underlying the plan, and the robustness of the bank holding company's capital planning process. Under the capital plan rule, the Board may object to a bank holding company's capital plan if the Board determines that (1) the bank holding company has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process; (2) the assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies for reviewing its capital adequacy process, are not reasonable or appropriate;²⁹ or (3) the bank holding company's capital planning process or proposed capital distributions otherwise constitute an unsafe or unsound practice, or would violate any law, regulation, Board order, directive, or condition imposed by, or written agreement with, the Board or the appropriate Federal Reserve Bank (together, qualitative objection criteria).³⁰ The Board may also object to a bank holding company's capital plan if the bank holding company has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions

²⁹ As discussed in section II.E of this preamble below, the proposal would revise this criterion to permit objection where the Board determines that the assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's *methodologies and practices that support its capital planning process*, are not reasonable or appropriate.

³⁰ See 12 CFR 225.8(f)(2)(ii)(A), (B), and (D).

throughout the planning horizon (that is, based on a quantitative assessment).³¹ In the past CCAR exercises, the Board has publicly announced its decision to object to a bank holding company's capital plan, along with the basis for the decision.³²

In the feedback meetings that the Board held on CCAR, participants from large and noncomplex firms expressed the view that the CCAR qualitative assessment was unduly burdensome because, in their view, it required the development of large amounts of documentation and sophisticated stress test models to the same degree as the largest firms in order to avoid a public objection to their capital plan. Consistent with this feedback, further tailoring of regulatory requirements for large and noncomplex firms would avoid creating a risk, based on the high public profile of the CCAR qualitative review, that large and noncomplex firms will over-invest in stress testing and capital planning processes that are unnecessary to adequately capture the risks of these firms.

In general, large and noncomplex firms present less systemic risk than LISCC firms and large and complex firms. Furthermore, large and noncomplex firms are generally engaged in traditional banking activities and have a more limited geographical scope than LISCC firms and large and complex firms; accordingly, there is less variation in key risks across these firms relative to key risks of LISCC firms and large and complex firms. The strength of each large and noncomplex firm's capital planning process may be assessed through normal supervisory reviews supplemented with targeted, horizontal reviews of aspects of capital planning. Consequently, the Federal Reserve proposes to conduct its supervisory assessment of a large

³¹ See 12 CFR 225.8(f)(2)(ii)(C).

³² See 12 CFR 225.8(f)(v).

and noncomplex firm's risk-management and capital planning practices through the regular supervisory process and targeted, horizontal assessments of particular aspects of capital planning, rather than the intensive CCAR qualitative horizontal assessment. Further, the Board would not object to the capital plans of large and noncomplex firms due to qualitative deficiencies in their capital planning process, but rather would incorporate an assessment of these practices into regular, ongoing supervision.

As compared to CCAR, the proposed review process for large and noncomplex firms is expected to be more limited in scope, include targeted horizontal evaluations of specific areas of the capital planning process, and focus on the standards set forth in the capital plan rule and SR Letter 15-19. Before the start of the supervisory review process, the Federal Reserve would send a supervisory communication to each large and noncomplex firm describing the scope of the year's review. The review would likely occur in the quarter following the CCAR qualitative assessment for LISCC firms and large and complex firms.

Under the proposal, the Board would continue to perform the annual quantitative assessment of capital plans of the large and noncomplex firms and publicly announce a decision to object or not object to a firm's capital plan on this basis. The quantitative assessment ensures that firms maintain sufficient capital to continue operations throughout times of economic and financial market stress. While an individual large and noncomplex firm is likely to have a lower systemic risk profile than a LISCC firm or large and complex firm, its activities or distress still could pose some degree of risk to financial stability. Moreover, large and noncomplex firms collectively represent over \$2 trillion in total assets and nearly \$1.3 trillion in loans and leases as of June 30, 2016. A common weakness or insufficient capitalization across a group of large and noncomplex firms could still represent a significant

threat to the U.S. economy and to specific regions where the firms' operations or activities are concentrated. Accordingly, the proposal would maintain the current quantitative analysis framework for these firms and the possible basis for objection to a firm's capital plan based on the results of the quantitative assessment, in order to appropriately ensure the capital adequacy of all bank holding companies subject to the capital plan rule.

As under the current capital plan rule, nothing in the proposal would limit the authority of the Federal Reserve to issue a capital directive, such as a directive to reduce capital distributions, or take any other supervisory enforcement action, including an action to address unsafe or unsound practices or conditions or violations of law, such as an unsafe and unsound capital planning process.³³

³³ See 12 CFR 225.8(b)(4).

E. Continued application of CCAR for LISCC firms and large and complex firms

For LISCC firms and large and complex firms, the proposal would maintain the current comprehensive assessment of capital planning processes in the CCAR qualitative assessment. The comprehensive assessment of capital planning processes in the CCAR qualitative assessment produces significant safety and soundness benefits for LISCC firms and large and complex firms and financial stability benefits for the financial system as a whole. As the Board noted when it adopted the capital plan rule in 2011, the analytical techniques and other requirements set forth in the capital plan rule enable a firm to identify, measure, and monitor its risks and promote the stability of the U.S. financial system.³⁴

Expectations for LISCC firms and large and complex firms are elevated relative to large and noncomplex firms because material distress or failure of a LISCC firm or large and complex firm is more likely to pose a threat to U.S. financial stability as compared to a large and noncomplex firm, heightening the need to ensure the resiliency of these firms. Furthermore, LISCC firms and large and complex firms engage in more diverse activities and have a larger overall size and geographical scope than large and noncomplex firms. This larger size and greater diversity leads to greater variation in the material risks at these firms, which may not be fully captured by a standardized supervisory stress scenario.

The intensive, comprehensive assessment provided by the CCAR qualitative process enables the Federal Reserve to assess whether a LISCC firm or large and complex firm has sufficient capital and strong capital planning processes in light of the scope and diversity of its activities, including risks that are idiosyncratic to each firm. The systemic footprint of these

³⁴ 76 FR 74631, 74632 (December 1, 2011).

firms and the damage that their failure could pose to the financial system makes it critical that a comprehensive assessment occur on an annual basis, to ensure that the capital planning processes of LISCC firms and large and complex firms are sufficiently dynamic to reflect changes in economic or financial conditions, as well as changes to the risk profile of the firm.

The public nature of the CCAR process and disclosure of the results of the Federal Reserve's qualitative assessment helps to ensure that LISCC firms and large and complex firms maintain focus on ensuring that their practices are consistent with the Federal Reserve's capital planning expectations articulated in SR Letter 15-18.³⁵ Additionally, the public profile of the CCAR qualitative assessment improves incentives for firms to ensure the strength of their capital planning processes. The additional scrutiny and market discipline provided by the CCAR process is all the more important in light of the systemic risk presented by LISCC firms and large and complex firms.

The proposal includes a modification to the capital plan rule's qualitative objection criteria for LISCC firms and large and complex firms to better align with the Federal Reserve's focus during the CCAR supervisory assessment. Specifically, the proposal provides that the Board may object to a the capital plan of a LISCC firm or large and complex firm if, among other factors, the *methodologies and practices that support the bank holding company's capital planning process* are not reasonable or appropriate (emphasis added). The current rule instead provides a basis for objection if the bank holding company's *methodologies for reviewing its capital adequacy process*, are not reasonable or appropriate (emphasis added). This modification is intended to clarify the current scope of the CCAR qualitative review and the

³⁵ See SR Letter 15-18.

areas of the focus in the review of the capital plan of a LISCC firm or a large and complex firm.

F. Implementation of modified reporting requirements

The Capital Assessments and Stress Testing Report (FR Y-14 series of reports; OMB No. 7100-0341) collects data used to support supervisory stress testing models and continuous monitoring efforts for bank holding companies with total consolidated assets of \$50 billion or more. The FR Y-14 consists of three reports: the semi-annual FR Y-14A, the quarterly FR Y-14Q, and monthly FR Y-14M. Each report contains multiple schedules, several of which are reported only by bank holding companies that meet specified materiality thresholds.

In discussions on CCAR, several large and noncomplex firms recommended that the Board revise the FR Y-14 series of reports to reduce reporting burdens for these firms. For instance, these large and noncomplex firms suggested that the Board raise the materiality threshold for the FR Y-14 reports and reduce the detail required in the supporting documentation requirements. Additionally, these firms indicated that in some cases where a portfolio met the criteria to be considered immaterial, the firm voluntarily reported data on the portfolio due to the Federal Reserve's practice of applying a 75th percentile loss rate to immaterial portfolios in the supervisory stress test. The proposal would reduce burdens associated with reporting the FR Y-14 schedules for large and noncomplex firms in three ways: by raising the materiality threshold, reducing the supporting documentation requirements, removing several sub-schedules from the FR Y-14A Summary Schedule, and using the median loss rate for immaterial portfolios.

The proposal would increase the materiality thresholds for filing schedules on the FR Y-14Q report and the FR Y-14M report for large and noncomplex firms. The FR Y-14

instructions currently define material portfolios as those with asset balances greater than \$5 billion or asset balances greater than five percent of tier 1 capital on average for the four quarters preceding the reporting quarter.³⁶ The proposal would revise the FR Y-14's definition of a "material portfolio" for large and noncomplex firms to mean a portfolio with asset balances greater than either (1) \$5 billion or (2) 10 percent of tier 1 capital, both measured as an average for the four quarters preceding the reporting quarter.³⁷ As a result of this change, respondents would be able to exclude certain portfolios from reporting and in some cases may not be required to report certain schedules at all. In modeling losses on these portfolios for large and noncomplex firms, the Federal Reserve intends to apply the median, rather than 75th percentile, loss rate from supervisory projections based on the firms that reported data, so as not to discourage firms from using the increased threshold for materiality.

The proposal also would reduce the supporting documentation a large and noncomplex firm would be required to submit with its capital plan. Appendix A of the FR Y-14A report outlines qualitative information that a bank holding company should submit in support of its projections, including descriptions of the methodologies used to develop the internal projections of capital across scenarios and other analyses that support the bank holding company's comprehensive capital plans. The proposal would revise the instructions to Appendix A of the FR Y-14A to remove the requirement that a large and noncomplex firm include in its capital plan submission certain documentation regarding its models, including

³⁶ Respondents have the option to complete the data schedules for immaterial portfolios.

³⁷ The four quarter average percent of tier 1 capital is calculated as the sum of the firm's preceding four quarters of balances subject to the particular materiality threshold divided by the sum of the firm's preceding four quarters of tier 1 capital.

any model inventory mapping document, methodology documentation, model technical documents, and model validation documentation. Large and noncomplex firms would still be required to be able to produce these materials upon request by the Federal Reserve, and all or a subset of these firms may be required to provide this documentation depending on the focus of the supervisory review of large and noncomplex firm capital plans. Removing the requirement that a large and noncomplex firm submit this information in connection with its capital plan should reduce the resources needed to prepare the plan for submission and alleviate concerns of an adverse supervisory finding that a capital plan is incomplete based on the failure to provide documentation.

Under the proposal, large and noncomplex firms would no longer be required to complete several elements of the FR Y-14A Schedule A (Summary), including the Securities OTTI methodology sub-schedule, Securities Market Value source sub-schedule, Securities OTTI by security sub-schedule, the Retail repurchase sub-schedule, the Trading sub-schedule, Counterparty sub-schedule, and Advanced RWA sub-schedule.³⁸ The revised instructions for the FR Y-14A Summary schedule reporting form are available on the Board's public website. Removing these elements should reduce burdens associated with collecting and validating this data, responding to follow-up inquiries, and implementing and maintaining technical systems. Under the proposal, a large and noncomplex firm may adopt these changes for the FR Y-14A report as of December 31, 2016, or as of June 30, 2017. The Federal Reserve continues to review the details required to be reported in the FR Y-14 series of reports, and may propose

³⁸ A large and noncomplex firm would be required to report line item 138 of the income statement, as that line item is currently derived from the retail repurchase sub-schedule.

additional changes in the future to further reduce burdens associated with these reporting requirements.

G. Simplify initial application of capital plan and stress test rules and regulatory reporting requirements

The proposal would simplify the applicability provisions for the capital plan and stress test rules that apply to bank holding companies with \$50 billion or more in total consolidated assets (subparts E and F of the Board's Regulation YY, hereafter subparts E and F) and provide additional time before the application of these requirements for bank holding companies that cross the \$50 billion asset threshold close to the April 5 capital plan submission and stress test date. Under the current rules, a bank holding company that crosses the \$50 billion asset threshold on or before December 31 of a calendar year must submit a capital plan by April 5 of the following year. Under the proposal, the cutoff date for the capital plan rule would be moved to September 30, so that a firm that crosses the \$50 billion asset threshold in the fourth quarter of a calendar year would not have to submit a capital plan until April 5 of the second year after it crosses the threshold.

The proposal would also align the cutoff date for initial application of the stress test rules in subparts E and F with the proposed September 30 cutoff date for the initial application of the capital plan rule. A bank holding company would become subject to these stress test rules in subparts E and F in the year following the first year in which the bank holding company submitted a capital plan. Under the current stress test rules, a bank holding company that crosses the \$50 billion asset threshold before March 31 of a given year becomes subject to the stress test rules under subparts E and F beginning in the following year, and accordingly, may have only nine months before its first stress test under these subparts. Under the proposal,

a firm would have at least a year before it would be subject to its initial stress tests under subparts E and F. This revision would simplify the application of the capital plan and stress test rules and allow for a more orderly onboarding process for new FR Y-14 filers, which will improve the quality of data used in the supervisory stress tests.³⁹

The proposal would also provide an extended onboarding period for regulatory reporting requirements to a bank holding company after it first crosses the \$50 billion asset threshold. Currently, a bank holding company that crosses the \$50 billion asset threshold must prepare FR Y-14M reports as of the end of the month in which it crosses the threshold, and must submit its first FR Y-14M within 90 days after the end of the month (at which time, data for the three intervening months is due). The proposal would require a bank holding company to begin preparing its initial FR Y-14M as of the end of the *third* month after the bank holding company first meets the \$50 billion asset threshold (rather than as of the month in which the bank holding company crosses the threshold) and must submit its first FR Y-14M within 90 days after the end of that month (at which time, data for the three intervening months would be due). For example, a bank holding company that crosses the \$50 billion asset threshold as of September 30, 2016, would be required to prepare its initial FR Y-14M report as of December 2016, and file its FR Y-14M reports for December 2016, January 2017, and February 2017 in March 2017. A bank holding company would continue to prepare its FR Y-14Q report as of the end of the first quarter after it initially crosses the threshold. The

³⁹ Providing this extension would also have the effect of allowing firms that cross the \$50 billion in the fourth quarter of a given year as much as a year and a half before they are required to submit their first capital plan, and two and a half years before they are subject to the stress tests under subparts E and F. This extended period would allow for the significant investments firms must make to meet these requirements and account for the fact that these firms would continue to be subject to prudential supervision during the transition period.

additional onboarding time should facilitate communications between the Federal Reserve and a bank holding company and better prepare the bank holding company to comply with FR Y-14 reporting requirements. Generally, a bank holding company does not begin the onboarding process, including dialogue with the data aggregators who collect the FR Y-14M data, until after the Federal Reserve confirms that the bank holding company has exceeded the asset threshold. Accordingly, providing for an extended onboarding period should help bank holding companies become better prepared to comply with the FR Y-14 reporting requirements when they take effect, which will improve data quality for initial reporting periods and reduce burdens and costs for reporting bank holding companies.

III. Other amendments to the capital plan and stress test rules

A. Lowering the de minimis exception threshold for all bank holding companies

As noted, a bank holding company subject to the capital plan rule must request prior approval for a capital distribution that has not explicitly been approved by the Board. However, in the event that a bank holding company received a notice of non-objection to its capital plan, the bank holding company may make a capital distribution that exceeds the amount described in the capital plan if: (1) the bank holding company remains well capitalized after the distribution,⁴⁰ (2) the bank holding company's performance and capital levels following the distribution are consistent with its projections under the expected conditions in the bank holding company's capital plan, (3) the bank holding company provides 15 days' notice prior to execution and the Board does not object within that time period; and (4) the aggregate dollar amount of all capital distributions during the capital planning cycle (the period beginning on

⁴⁰ As defined by 12 CFR 225.2(r).

July 1 of a calendar year and ending on June 30 of the following year) would not exceed the total amount described in the bank holding company's capital plan by more than 1.00 percent of the bank holding company's tier 1 capital as reported in the bank holding company's first quarter FR Y-9C.⁴¹

The purpose of this de minimis exception is to provide flexibility for well-capitalized bank holding companies to distribute small, additional amounts of capital without the need for a complete re-assessment of the bank holding company's capital plan. Prior to the 2015 capital planning cycle, requests to make distributions under the de minimis exception were generally small and typically related to unanticipated events that improved a bank holding company's capital levels (such as tax rebates or litigation settlements). Over time, the Board has observed a pattern of certain bank holding companies using the de minimis exception to increase their common stock repurchases by the maximum amount allowed under the exception. This pattern risks treating the de minimis exception as an automatic add-on to approved common stock distributions under a bank holding company's capital plan rather than for its intended use for unanticipated events. Based on planned net common stock distributions (i.e., planned common stock dividends and repurchases less planned common stock issuances) for the CCAR 2016 approval period, the current level of the de minimis threshold would imply that bank holding companies could increase their net common stock capital distributions by 32 percent on average (median of 13 percent).⁴²

⁴¹ See 12 CFR 225.8(g)(2).

⁴² Net common stock distributions is calculated as planned common stock dividends and repurchases less planned common stock issuances. This analysis excludes firms that had no or negative net planned common stock distributions in their 2016 capital plans.

The proposal would reduce the de minimis exception from 1.00 percent to 0.25 percent of a bank holding company's tier 1 capital in order to ensure that a de minimis distribution would represent a smaller percentage of the bank holding company's approved capital distributions and tier 1 capital. Based on data from CCAR 2016, a 0.25 percent de minimis threshold would enable bank holding companies to increase their planned net common stock distributions by 8 percent on average (median of 3 percent).

The expected aggregate capital impact of this proposed change to the de minimis exception threshold can be evaluated on both a prospective and historical basis. On a prospective basis, a comparison can be made between the total de minimis capital distributions that could be made across all bank holding companies subject to CCAR (assuming all applicable conditions were met) under the proposal and under the current rule, by taking the difference between 1.00 percent and 0.25 percent of tier 1 capital across all firms. Based on data as of the first quarter of 2016, this difference equals \$9.8 billion, equivalent to 0.10 percent of the total risk-weighted assets of bank holding companies subject to CCAR in 2016.⁴³ On a historical basis, if a 0.25 percent de minimis limitation had applied during the CCAR 2015 cycle rather than a 1.00 percent limitation, \$2.3 billion of distributions actually made during the CCAR 2015 period would not have been permitted without prior approval, equivalent to 0.02 percent of total risk-weighted assets of bank holding companies subject to CCAR in 2015.

⁴³ Total risk-weighted assets across bank holding companies subject to CCAR in 2016 equaled \$9.6 trillion.

A smaller de minimis limitation would not prohibit these additional distributions. Instead, it would require the bank holding company to include the distributions in its next annual capital plan.

In addition, with the proposed revision to the de minimis rule, bank holding companies would still be able to seek approval to make capital distributions not included in their capital plans, consistent with section 225.8(g) of the capital plan rule. Any bank holding company making such a request must provide adequate information regarding any changes to its risk profile, financial condition, and corporate structure since the previous CCAR exercise. In many cases, the Federal Reserve expects to request additional information from bank holding companies that request approval for additional capital distributions, which will likely include revised stress test results using updated data and scenarios. One exception is where a bank holding company replaces the foregone capital with capital of equal or higher quality prior to or concurrently with the incremental distribution.

One important factor in the Board's decision on a capital distribution request is the size and complexity of the bank holding company making the request. All else equal, a capital distribution request from a LISC or large and complex firm would likely require stronger justification than a request from a large and noncomplex firm. For instance, a request from a LISC or large and complex firm directly related to an unforeseeable event at the time of the last capital plan submission that has a positive expected impact on current or future capital ratios would likely require more supporting evidence (for instance, updated stress test results) than a similar request from a large and noncomplex firm. This difference reflects the Federal Reserve's elevated expectations for capital planning at LISC and large and complex firms,

where any revision to a firm's capital plan to increase capital distributions following the CCAR qualitative assessment requires strong evidence and support.

B. Blackout period for the de minimis exception and requests for approval to make additional distributions not included in a bank holding company's capital plan

In addition to proposing a change in the allowable size of the de minimis exception, the proposal would establish a one-quarter "blackout period" while the Board is conducting CCAR (the second quarter of a calendar year) during which bank holding companies would not be able to submit a notice to use the de minimis exception or submit a request for prior approval for additional capital distributions that do not qualify for the de minimis exception. In the absence of this modification, the Federal Reserve's analysis in CCAR may not in all cases represent a comprehensive evaluation of the bank holding company's capital adequacy and the appropriateness of the bank holding company's planned capital actions in CCAR. Under the proposal, a bank holding company seeking to make capital distributions in the second quarter in excess of the amount described in the capital plan for which a non-objection was issued pursuant to the de minimis exception or prior approval process, when the CCAR exercise is underway, would be required submit a notice to use the de minimis exception by March 15 or submit a request for prior approval for incremental capital distributions that do not qualify for the de minimis exception by March 1 and reflect the additional distributions in its capital plan. The proposed blackout periods are expected to be effective for CCAR 2017.

C. Revisions to the time period from which the market shock "as-of" date may be selected

Under the Board's stress test rules, the Board may require a bank holding company with significant trading activity to include a trading and counterparty component ("global market shock") in its adverse and severely adverse scenarios for its company-run stress tests.

Currently, the Board must select a date between January 1 and March 1 of the calendar year of the stress test cycle. However, in order to provide bank holding companies with as much time as possible to conduct their company-run stress tests and prepare their capital plans, the Board has typically specified the as-of date for the global market shock as early as possible in January. As such, the Board has a narrow window to select the as-of date for the market shock, effectively sometime very early in January. The narrow window creates the possibility for bank holding companies to artificially reduce the risk of their portfolios around the time of the market shock date. In addition, limiting the as-of date for the market shock to the first weeks of the calendar year does not account for seasonality in trading activity – for example, trading activity typically slows towards the end of the calendar year and gradually picks up in the new calendar year.

The proposal would allow the Board to select any date between October 1 of the prior year and March 1 of the year of the stress test cycle for the as-of date of the global market shock. Bank holding companies subject to the trading and counterparty component would be notified within two weeks of the selected as-of date for the global market shock, to enable the bank holding company to preserve trading and counterparty exposure data from the as-of date. This change would help ensure that the stress tests capture representative trading exposure for bank holding companies with significant trading activity, for example, by avoiding effects caused by unusual trading conditions around year-end. Moreover, the change would provide additional time for both bank holding companies and supervisors to implement the global market shock scenario in a well-controlled manner. Under the proposal, this change would take effect for the 2018 stress test cycle.

D. Removal of obsolete provisions

In 2014, the Federal Reserve adjusted the capital planning and stress test cycles from an October 1 as-of date to a January 1 as-of date. The capital plan and stress test rules currently include several provisions reflecting the previous October 1 as-of date, as well as obsolete transition provisions for foreign banking organizations that previously relied on SR Letter 01-01,⁴⁴ and for the application of the supplementary leverage ratio. The proposal would remove these provisions, as they are no longer operative.

IV. Administrative Law Matters

A. Paperwork Reduction Act

In accordance with section 3512 of the Paperwork Reduction Act of 1995 (44 U.S.C. § 3501-3521) (PRA), the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The OMB control numbers are 7100-0128, 7100-0341, and 7100-0342 for this information collection. The Board reviewed the proposed rule under the authority delegated to the Board by OMB.

The proposed rule contains requirements subject to the PRA. The reporting requirements are found in sections 12 CFR 225.8.

Comments are invited on:

- a. Whether the collections of information are necessary for the proper performance of the Federal Reserve's functions, including whether the information has practical utility;

⁴⁴ SR Letter 01-01 (January 5, 2001), available at www.federalreserve.gov/boarddocs/srletters/2001/sr0101.htm.

- b. The accuracy or the estimate of the burden of the information collections, including the validity of the methodology and assumptions used;
- c. Ways to enhance the quality, utility, and clarity of the information to be collected;
- d. Ways to minimize the burden of the information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- e. Estimates of capital or startup costs and costs of operation, maintenance, and purchase of services to provide information.

All comment will become a matter of public record. Comments on aspects of this notice that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets NW., Washington, DC 20551. A copy of the comments may also be submitted to the OMB desk officer by mail to U.S. Office of Management and Budget, 725 17th Street NW., #10235, Washington, DC 20503 or by facsimile to 202-3955806, Attention, Agency Desk Officer.

Proposed Revisions, With Extension for Three Years, of the Following Information Collections:

(1) *Title of Information Collection:* Parent Company Only Financial Statements for Large Holding Companies.

Agency Form Number: FR Y-9C; FR Y-9LP; FR Y-9SP; FR Y-9ES; FR Y-9CS.

OMB Control Number: 7100-0128.

Frequency of Response: Quarterly, semi-annually, and annually.

Affected Public: Businesses or other for-profit.

Respondents: Bank holding companies (BHCs), savings and loan holding companies (SLHCs), securities holding companies (SHCs), and U.S. intermediate holding companies (IHCs), (collectively, “holding companies”).

Abstract: The FR Y-9LP serves as standardized financial statements for large parent holding companies. The FR Y-9 family of reporting forms continues to be the primary source of financial data on holding companies that examiners rely on in the intervals between on-site inspections. Financial data from these reporting forms are used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate holding company mergers and acquisitions, and to analyze a holding company’s overall financial condition to ensure the safety and soundness of its operations.

Current Actions: The proposal would amend the FR Y-9LP to include new line item 17 of PC-B Memoranda (Total nonbank assets of a holding company subject to the Federal Reserve Board’s capital plan rule) for purposes of identifying large and noncomplex firms subject to the capital plan rule. Under the proposal, a top-tier holding company that is subject to the Board’s capital plan rule would be required to report on the FR Y-9LP the average dollar amount for the calendar quarter (as calculated on either a daily, weekly, or monthly basis during the calendar quarter) of its total nonbank assets of consolidated nonbank subsidiaries, whether held directly or indirectly or held through lower-tier holding companies, and its direct investments in unconsolidated nonbank subsidiaries, associated nonbank companies, and those nonbank corporate joint ventures over which the bank holding company exercises significant

influence (collectively, “nonbank companies”).⁴⁵ As noted in section II.C.2 of this preamble, the Board seeks comment as to whether a daily, weekly, or monthly average would be most appropriate for this calculation. This proposed amendment would be effective as of March 31, 2017.

Nonbank companies, for purposes of this measure, would exclude (i) all national banks, state member banks, state nonmember insured banks (including insured industrial banks), federal savings associations, federal savings banks, thrift institutions (collectively for purposes of this proposed item 17, “depository institutions”) and (ii) except for an Edge or Agreement Corporation designated as “Nonbanking” in the box on the front page of the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b), any subsidiary of a depository institution (for purposes of this proposed item 17, “depository institution subsidiary”).

All intercompany assets and operating revenue among the nonbank companies should be eliminated, but assets and operating revenue with the reporting holding company; any depository institution; any depository institution subsidiary; and for a reporting holding company that is a subsidiary of a foreign banking organization, any branch or agency of the foreign banking organization or any non-U.S. subsidiary, non-U.S. associated company, or non-U.S. corporate joint venture of the foreign banking organization that is not held through

⁴⁵ For purposes of the FR Y-9LP, (i) a subsidiary is a company in which the reporting bank holding company directly or indirectly owns more than 50 percent of the outstanding voting stock; (ii) an associated company is a corporation in which the reporting bank holding company, directly or indirectly, owns 20 to 50 percent of the outstanding voting stock and over which the reporting bank holding company exercises significant influence; and (iii) a corporate joint venture is a corporation owned and operated by a group of companies, no one of which has a majority interest, as a separate and specific business or project for the mutual benefit of that group of companies.

the reporting holding company, should be included. For example, eliminate the loans made by one nonbank company to a second nonbank company, but do not eliminate loans made by one nonbank company to the parent holding company; depository institution; depository institution subsidiary; or for a reporting holding company that is a subsidiary of a foreign banking organization, any branch or agency of the foreign banking organization or any non-U.S. subsidiary, non-U.S. associated company, or non-U.S. corporate joint venture of the foreign banking organization that is not held through the reporting holding company.

While the FR Y-9LP collects another measure of nonbank assets (line item 15 of PC-B Memoranda (Total combined nonbank assets of nonbank subsidiaries)), the proposed nonbank assets measure differs in several important ways. Specifically, proposed line item 17 excludes assets of an insured industrial bank, federal savings association, federal savings bank, or thrift institution and includes assets of an Edge or Agreement Corporation designated as “Nonbanking” in the box on the front page of the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b). It also includes the value of an investment in an unconsolidated nonbank company that is held directly by the holding company. While these elements may be sourced from other reporting forms, the new line item is necessary to reflect the elimination of intercompany transactions among these nonbank companies, as described above.

Number of Respondents: Proposed revision would apply to top-tier holding companies subject to the Board’s capital plan rule (BHCs and IHCs with total consolidated assets of \$50 billion or more), for a total of 38 of the existing 792 FR Y-9LP respondents. FR Y-9C (non-Advanced Approaches holding companies or other respondents): 654; FR Y-9C (Advanced

Approaches holding companies or other respondents): 13; FR Y-9SP: 4,122; FR Y-9ES: 88; FR Y-9CS: 236.

Estimated Average Hours per Response: FR Y-9C (non-Advanced Approaches holding companies or other respondents): 50.17 hours; FR Y-9C (Advanced Approaches holding companies or other respondents): 52.42 hours; FR Y-9LP: 5.25 hours; FR Y-9SP: 5.4 hours; FR Y-9ES: 0.5 hours; FR Y-9CS: 0.5 hours.

Current Estimated Annual Burden Hours: FR Y-9C (non-Advanced Approaches holding companies or other respondents): 131,245 hours; FR Y-9C (Advanced Approaches holding companies or other respondents): 2,674 hours; FR Y-9LP: 16,632 hours; FR Y-9SP: 44,518; FR Y-9ES: 44; FR Y-9CS: 472.

Proposed Revisions only change in Estimated Annual Burden Hours: FR Y-9LP: 76 hours (0.5 hours per quarter for the 38 impacted FR Y-9LP respondents).

Proposed Total Estimated Annual Burden Hours: FR Y-9C (non-Advanced Approaches holding companies or other respondents): 131,245 hours; FR Y-9C (Advanced Approaches holding companies or other respondents): 2,674 hours; FR Y-9LP: 16,651 hours; FR Y-9SP: 44,518; FR Y-9ES: 44; FR Y-9CS: 472.

(2) *Title of Information Collection:* Capital Assessments and Stress Testing information collection.

Agency Form Number: FR Y-14A/Q/M

OMB Control Number: 7100-0341.

Frequency of Response: Annually, semi-annually, quarterly, and monthly.

Affected Public: Businesses or other for-profit.

Respondents: The respondent panel consists of any top-tier bank holding company (BHC) or intermediate holding company (IHC) that has \$50 billion or more in total consolidated assets, as determined based on: (i) the average of the firm's total consolidated assets in the four most recent quarters as reported quarterly on the firm's Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) (OMB No. 7100-0128); or (ii) the average of the firm's total consolidated assets in the most recent consecutive quarters as reported quarterly on the firm's FR Y-9Cs, if the firm has not filed an FR Y-9C for each of the most recent four quarters. Reporting is required as of the first day of the quarter immediately following the quarter in which it meets this asset threshold, unless otherwise directed by the Board.

Abstract: The data collected through the FR Y-14A/Q/M schedules provide the Board with the additional information and perspective needed to help ensure that large BHCs and IHCs have strong, firm-wide risk measurement and management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient given their business focus, activities, and resulting risk exposures. The annual CCAR exercise is also complemented by other Board supervisory efforts aimed at enhancing the continued viability of large firms, including continuous monitoring of firms' planning and management of liquidity and funding resources and regular assessments of credit, market and operational risks, and associated risk management practices. Information gathered in this data collection is also used in the supervision and regulation of these financial institutions. In order to fully evaluate the data submissions, the Board may conduct follow-up discussions with or request responses to follow up questions from respondents, as needed.

The Capital Assessments and Stress Testing information collection consists of the FR Y-14A, Q, and M reports. The semi-annual FR Y-14A collects quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios.⁴⁶ The quarterly FR Y-14Q collects granular data on various asset classes, including loans, securities, and trading assets, and pre-provision net revenue (PPNR) for the reporting period. The monthly FR Y-14M comprises three retail portfolio- and loan-level collections, and one detailed address matching collection to supplement two of the portfolio and loan-level collections.

Current Actions: The Capital Assessments and Stress Testing Report (FR Y-14 series of reports; OMB No. 7100-0341) collects data used to support supervisory stress testing models and continuous monitoring efforts for bank holding companies with total consolidated assets of \$50 billion or more. The FR Y-14 consists of three reports, the semi-annual FR Y-14A, the quarterly FR Y-14Q, and monthly FR Y-14M. Each report contains multiple schedules, several of which are reported only by bank holding companies that meet specified materiality thresholds. In discussions on CCAR, several large and noncomplex firms recommended that the Board revise the FR Y-14 series of reports to reduce the reporting burden on these firms. For instance, these large and noncomplex firms suggested that the Board raise the materiality threshold for the FR Y-14 reports and reduce the detail required in the supporting documentation requirements. The proposal would reduce burdens associated with reporting the FR Y-14 schedules for large and noncomplex firms by raising the

⁴⁶ A BHC that must re-submit its capital plan generally also must provide a revised FR Y-14A in connection with its resubmission.

materiality threshold, reducing supporting documentation requirements, removing several sub-schedules from the FR Y-14A Summary Schedule, and using the median loss rate for immaterial portfolios.

The proposal would increase the materiality thresholds for filing schedules on the FR Y-14Q report and the FR Y-14M report for large and noncomplex firms. The FR Y-14 instructions currently define material portfolios as those with asset balances greater than \$5 billion or asset balances greater than five percent of tier 1 capital, both measured as an average for the four quarters preceding the reporting quarter.⁴⁷ The proposal would revise the FR Y-14's definition of a "material portfolio" for large and noncomplex firms to mean a portfolio with asset balances greater than either (1) \$5 billion or (2) 10 percent of tier 1 capital on average for the four quarters preceding the reporting quarter.⁴⁸ As a result of this change, respondents would be able to exclude certain portfolios from reporting and in some cases may not be required to report certain schedules at all.

In addition, the proposal would reduce the supporting documentation a large and noncomplex firm would be required to submit with its capital plan. Appendix A of the FR Y-14A report outlines qualitative information that a bank holding company should submit in support of its projections, including descriptions of the methodologies used to develop the internal projections of capital across scenarios and other analyses that support the bank holding company's comprehensive capital plans. The proposal would revise the instructions to

⁴⁷ Respondents have the option to complete the data schedules for immaterial portfolios.

⁴⁸ The four quarter average percent of tier 1 capital is calculated as the sum of the firm's preceding four quarters of balances subject to the particular materiality threshold divided by the sum of the firm's preceding four quarters of tier 1 capital.

Appendix A of the FR Y-14A to remove the requirement that a large and noncomplex firm include in its capital plan submission certain documentation regarding its models, including any model inventory mapping document, methodology documentation, model technical documents, and model validation documentation. Large and noncomplex firms would still be required to be able to produce these materials upon request by the Federal Reserve, and all or a subset of these firms may be required to provide this documentation depending on the focus of the supervisory review of large and noncomplex firm capital plans. Removing the requirement that a large and noncomplex firm submit this information in connection with its capital plan should reduce the resources needed to prepare the plan for submission and alleviate concerns of an adverse supervisory finding that a capital plan is incomplete based on the failure to provide documentation.

Under the proposal, large and noncomplex firms would no longer be required to complete several elements of the FR Y-14A Schedule A (Summary), including the Securities OTTI methodology sub-schedule, Securities Market Value source sub-schedule, Securities OTTI by security sub-schedule, the Retail repurchase sub-schedule, the Trading sub-schedule, Counterparty sub-schedule, and Advanced RWA sub-schedule.⁴⁹ The revised instructions for the FR Y-14A Summary schedule reporting form are available on the Board's public website. Removing these elements should reduce burdens associated with collecting and validating this data, responding to follow-up inquiries, and implementing and maintaining technical systems. Under the proposal, a large and noncomplex firm may adopt these changes for the FR Y-14A report as of December 31, 2016, or as of June 30, 2017. The Federal Reserve continues to

⁴⁹ A large and noncomplex firm would be required to report line item 138 of the income statement, as that line item is currently derived from the retail repurchase sub-schedule.

review the details required to be reported in the FR Y-14 series of reports, and may propose additional changes in the future to further reduce burdens associated with these reporting requirements.

These changes are expected to decrease burden for the information collection by 56,454 hours. This includes a decrease in the average hours per response for the FR Y-14A due to the elimination of the requirement for large and noncomplex firms to file four Summary sub-schedules and a reduction in the supporting documentation requirements, resulting in a decrease of 6,346 hours. The modification to the materiality threshold for the FR Y-14Q and FR Y-14M reports would be anticipated to reduce the number of firms filing certain schedules on the FR Y-14Q and FR Y-14M reports. Specifically, this would result in a decrease of 1,088 hours on the FR Y-14Q report and 49,020 hours for the FR Y-14M report.

Number of Respondents: 38

Estimated Average Hours per Response: FR Y-14A: Summary, 987 hours; Macro scenario, 31 hours; Operational Risk, 12 hours; Regulatory capital transitions, 23 hours; Regulatory capital instruments, 20 hours; Retail repurchase, 20 hours; and Business plan changes, 10 hours. FR Y-14Q: Securities risk, 13 hours; Retail risk, 16 hours; PPNR, 711 hours; Wholesale, 152 hours; Trading, 1,926 hours; Regulatory capital transitions, 23 hours; Regulatory capital instruments, 52 hours; Operational risk, 50 hours; MSR Valuation, 24 hours; Supplemental, 4 hours; Retail FVO/HFS, 16 hours; CCR, 508 hours; and Balances, 16 hours. FR Y-14M: 1st lien mortgage, 515 hours; Home equity, 515 hours; and Credit card, 510 hours. FR Y-14 On-Going automation revisions, 480 hours; and implementation, 7,200 hours. FR Y-14 Attestation: Implementation, 4,800 hours; and on-going revisions, 2,560 hours.

Current Estimated Annual Burden Hours: FR Y-14A: Summary, 75,012 hours; Macro scenario, 2,356 hours; Operational Risk, 456 hours; Regulatory capital transitions, 874 hours; Regulatory capital instruments, 760 hours; Retail repurchase, 1,520 hours; and Business plan changes, 380 hours. FR Y-14Q: Securities risk, 2,432 hours; Retail risk, 1,976 hours, Pre-provision net revenue (PPNR), 108,072 hours; Wholesale, 23,104 hours; Trading, 46,224 hours; Regulatory capital transitions, 3,496 hours; Regulatory capital instruments, 7,904 hours; Operational risk, 7,600 hours; Mortgage Servicing Rights (MSR) Valuation, 1,632 hours; Supplemental, 608 hours; and Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,728 hours; Counterparty, 12,192 hours; and Balances, 2,432 hours. FR Y-14M: 1st lien mortgage, 228,660 hours; Home equity, 197,760 hours; and Credit card, 153,000 hours. FR Y-14 On-going automation revisions, 18,720 hours; and implementation, 0 hours. FR Y-14 Attestation: Implementation, 0 hours; and on-going revisions, 23,040 hours.

Proposed Revisions only change in Estimated Annual Burden Hours: FR Y-14A: - 6,346 Hours, FR Y-14Q: -1,088 FR Y-14M: -49,020 Hours.

Proposed Total Estimated Annual Burden Hours: FR Y-14A: Summary, 68,780 hours; Macro scenario, 2,356 hours; Operational Risk, 456 hours; Regulatory capital transitions, 760 hours; Regulatory capital instruments, 760 hours; Retail repurchase, 1,520 hours; and Business plan changes, 380. FR Y-14Q: Securities risk, 2,280 hours; Retail risk, 1,824 hours, Pre-provision net revenue (PPNR), 108,072 hours; Wholesale, 22,952 hours; Trading, 46,224 hours; Regulatory capital transitions, 3,496 hours; Regulatory capital instruments, 7,904 hours; Operational risk, 7,600 hours; Mortgage Servicing Rights (MSR) Valuation, 1,288 hours; Supplemental, 608 hours; and Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,440 hours; Counterparty, 12,192 hours; and Balances, 2,432 hours. FR Y-14M: 1st lien mortgage,

228,660 hours; Home equity, 191,580 hours; and Credit card, 110,160 hours. FR Y-14 On-going automation revisions, 18,720 hours; and implementation, 0 hours. FR Y-14 Attestation: Implementation, 0 hours; and on-going revisions, 23,040 hours.

(3) Title of Information Collection: Recordkeeping and Reporting Requirements

Associated with Regulation Y (Capital Plans).

Agency Form Number: Reg Y-13.

OMB Control Number: 7100-0342.

Frequency of Response: Annually.

Affected Public: Businesses or other for-profit.

Respondents: BHCs and IHCs.

Abstract: Regulation Y (12 CFR part 225) requires large bank holding companies (BHCs) to submit capital plans to the Federal Reserve on an annual basis and to require such BHCs to request prior approval from the Federal Reserve under certain circumstances before making a capital distribution.

Current Actions: The proposed rule contains requirements subject to the PRA. The collection of information revised by this final rule is found in section 225.8 of Regulation Y (12 CFR part 225). Under section 225.8(f)(2) of the proposal, large and noncomplex firms would no longer be subject to the provisions of the Board's capital plan rule whereby the Board can object to a capital plan on the basis of qualitative deficiencies in the firm's capital planning process. In feedback meetings that the Board held on CCAR, participants from large and noncomplex firms expressed the view that the provision of the rule permitting the Board to object to a capital plan on the basis of qualitative deficiencies, in their view, required a large and noncomplex firm to develop a large amount of documentation and stress test models to the

same degree as the largest firms in order to avoid risk of a public objection to its capital plan. Accordingly, this revision to section 225.8(f)(2) is expected to reduce the recordkeeping requirements for large and noncomplex firms by approximately 25 percent, or 3,000 hours for large and noncomplex firms.

The proposed rule defines a large and noncomplex bank holding company as a bank holding company with average total consolidated assets of \$50 billion or more but less than \$250 billion, consolidated total on-balance sheet foreign exposure of less than \$10 billion, and average total nonbank assets of less than \$75 billion. While the total consolidated assets and on-balance sheet foreign exposure measures are calculated for purposes of other regulatory requirements, the proposed average total nonbank assets threshold is not otherwise calculated for purposes of a regulatory requirement.

For the first calculation date (December 31, 2016), firms will be required to calculate nonbank assets by aggregating items reported on other reporting forms. Specifically, nonbank assets would be calculated as (A) total combined nonbank assets of nonbank subsidiaries, as reported on line 15a of Schedule PC-B of the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) as of December 31, 2016; plus (B) the total amount of equity investments in nonbank subsidiaries and associated companies as reported on line 2a of Schedule PC-A of the FR Y-9LP as of December 31, 2016; plus (C) assets of each Edge and Agreement Corporation, as reported on the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) as of December 31, 2016, to the extent such corporation is designated as “Nonbanking” in the box on the front page of the FR 2886b; minus (D) assets of a federal savings association, federal savings bank, or thrift subsidiary, as

reported on the Report of Condition and Income (Call Report) as of December 31, 2016.

Performing this calculation is expected to require 1 hour per firm.

As noted above, for calculation dates following the initial calculation date, the Federal Reserve is adding a new line item to the FR Y-9LP (Parent Company Only Financial Statements for Large Holding Companies) to collect average total nonbank assets; however, for the December 31, 2016 calculation date, a firm will be required to calculate the line item based on existing line items. The burden associated with this line item will be reflected in that collection.

Number of Respondents: 38.

Estimated Average Hours per Response: Annual capital planning recordkeeping (225.8(e)(1)(i)), 11,920 hours; annual capital planning reporting (225.8(e)(1)(ii)), 80 hours; annual capital planning recordkeeping (225.8(e)(1)(iii)), 100 hours; data collections reporting ((225.8(e)(3)(i)-(vi))), 1,005 hours; data collections reporting (225.8(e)(4)), 100 hours; review of capital plans by the Federal Reserve reporting (225.8(f)(3)(i)), 16 hours; prior approval request requirements reporting (225.8(g)(1), (3), & (4)), 100 hours; prior approval request requirements exceptions (225.8(g)(3)(iii)(A)), 16 hours; prior approval request requirements reports (225.8(g)(6)), 16 hours.

Current Estimated Annual Burden Hours: Annual capital planning recordkeeping (225.8(e)(1)(i)), 452,960 hours; annual capital planning reporting (225.8(e)(1)(ii)), 2,240 hours; annual capital planning recordkeeping (225.8(e)(1)(iii)), 2,800 hours; data collections reporting ((225.8(e)(3)(i)-(vi))), 38,190 hours; data collections reporting (225.8(e)(4)), 1,000 hours; review of capital plans by the Federal Reserve reporting (225.8(f)(3)(i)), 32 hours; prior approval request requirements reporting (225.8(g)(1), (3), & (4)), 2,600 hours; prior approval

request requirements exceptions (225.8(g)(3)(iii)(A)), 32 hours; prior approval request requirements reports (225.8(g)(6)), 32 hours.

Proposed Revisions only change in Estimated Average Hours per Response: For large and noncomplex firms: Annual capital planning recordkeeping (225.8(e)(1)(i)), 8,920 hours.

Proposed Revisions only change in Estimated Annual Burden Hours: Annual capital planning reporting (225.8(e)(1)(ii)): -54,000 hours.

Proposed Total Estimated Annual Burden Hours: Annual capital planning recordkeeping (225.8(e)(1)(i)) (LISCC and large and complex firms), 238,400 hours; Annual capital planning recordkeeping (225.8(e)(1)(i)) (large and noncomplex firms), 160,560 hours; annual capital planning reporting (225.8(e)(1)(ii)), 2,240 hours; annual capital planning recordkeeping (225.8(e)(1)(iii)), 2,800 hours; data collections reporting ((225.8(e)(3)(i)-(vi))), 38,190 hours; data collections reporting (225.8(e)(4)), 1,000 hours; review of capital plans by the Federal Reserve reporting (225.8(f)(3)(i)), 32 hours; prior approval request requirements reporting (225.8(g)(1), (3), & (4)), 2,600 hours; prior approval request requirements exceptions (225.8(g)(3)(iii)(A)), 32 hours; prior approval request requirements reports (225.8(g)(6)), 32 hours.

B. Regulatory Flexibility Act

The Board is providing an initial regulatory flexibility analysis with respect to this proposed rule. The Regulatory Flexibility Act, 5 U.S.C. 601 et seq., generally requires that an agency prepare and make available an initial regulatory flexibility analysis in connection with a notice of proposed rulemaking.

Under regulations issued by the Small Business Administration (“SBA”), a small entity includes a depository institution, bank holding company, or savings and loan holding company

with total assets of \$550 million or less (a small banking organization).⁵⁰ As of June 30, 2016, there were approximately 594 small state member banks, 3,203 small bank holding companies and 162 small savings and loan holding companies. The proposed rule would apply only to bank holding companies with total consolidated asset of \$50 billion or more. Companies that would be subject to the proposed rule therefore substantially exceed the \$550 million total asset threshold at which a company is considered a small company under SBA regulations. Therefore, there are no significant alternatives to the proposed rule that would have less economic impact on small banking organizations. As discussed above, the projected reporting, recordkeeping, and other compliance requirements of the rule are expected to be small. The Board does not believe that the rule duplicates, overlaps, or conflicts with any other Federal rules. In light of the foregoing, the Board does not believe that the final rule would have a significant economic impact on a substantial number of small entities.

The Board welcomes comment on all aspects of its analysis. A final regulatory flexibility analysis will be conducted after consideration of comments received during the public comment period.

C. Solicitation of Comments of Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. No. 106-102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the

⁵⁰ See 13 CFR 121.201. Effective July 14, 2014, the Small Business Administration revised the size standards for banking organizations to \$550 million in assets from \$500 million in assets. 79 FR 33647 (June 12, 2014).

proposed rule in a simple and straightforward manner, and invites comment on the use of plain language.

For example:

- Have we organized the material to suit your needs? If not, how could the rule be more clearly stated?
- Are the requirements in the rule clearly stated? If not, how could the rule be more clearly stated?
- Do the regulations contain technical language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes would make the regulation easier to understand?
- Would more, but shorter, sections be better? If so, which sections should be changed?
- What else could we do to make the regulation easier to understand?

List of Subjects

12 CFR Part 225

Administrative practice and procedure, Banks, banking, Capital planning, Holding companies, Reporting and recordkeeping requirements Securities, Stress testing.

12 CFR Part 252

Administrative practice and procedure, Banks, Banking, Capital planning, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities, Stress testing.

Authority and Issuance

For the reasons stated in the Supplementary Information, the Board of Governors of the Federal Reserve System proposes to amend 12 CFR chapter II as follows:

PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

1. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p-1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331-3351, 3906, 3907, and 3909; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

Subpart A—General Provisions

2. Section 225.8 is revised to read as follows:

§ 225.8 Capital planning.

(a) *Purpose.* This section establishes capital planning and prior notice and approval requirements for capital distributions by certain bank holding companies.

(b) *Scope and reservation of authority—(1) Applicability.* Except as provided in paragraph (c) of this section, this section applies to:

(i) Any top-tier bank holding company domiciled in the United States with average total consolidated assets of \$50 billion or more (\$50 billion asset threshold);

(ii) Any other bank holding company domiciled in the United States that is made subject to this section, in whole or in part, by order of the Board;

(iii) Any U.S. intermediate holding company subject to this section pursuant to 12 CFR 252.153; and

(iv) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) *Average total consolidated assets.* For purposes of this section, average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y-9C, for the most recent quarter or consecutive quarters, as applicable. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C used in the calculation of the average.

(3) *Ongoing applicability.* A bank holding company (including any successor bank holding company) that is subject to any requirement in this section shall remain subject to such requirements unless and until its total consolidated assets fall below \$50 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(4) *Reservation of authority.* Nothing in this section shall limit the authority of the Federal Reserve to issue a capital directive or take any other supervisory or enforcement action, including an action to address unsafe or unsound practices or conditions or violations of law.

(5) *Rule of construction.* Unless the context otherwise requires, any reference to bank holding company in this section shall include a U.S. intermediate holding company and shall

include a nonbank financial company supervised by the Board to the extent this section is made applicable pursuant to a rule or order of the Board.

(c) *Transitional arrangements.* (1) *Transition periods for certain bank holding companies.* (i) A bank holding company that meets the \$50 billion asset threshold (as measured under paragraph (b) of this section) on or before September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the next calendar year, unless that time is extended by the Board in writing.

(ii) A bank holding company that meets the \$50 billion asset threshold after September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the second calendar year after the bank holding company meets the \$50 billion asset threshold, unless that time is extended by the Board in writing.

(iii) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a bank holding company described in paragraph (c)(1)(i) or (ii) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(2) *Transition periods for subsidiaries of certain foreign banking organizations.* (i) *U.S. intermediate holding companies.* (A) A U.S. intermediate holding company required to be established or designated pursuant to 12 CFR 252.153 on or before September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the next calendar year, unless that time is extended by the Board in writing.

(B) A U.S. intermediate holding company required to be established or designated pursuant to 12 CFR 252.153 after September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the second calendar year after the U.S. intermediate holding company is required to be established, unless that time is extended by the Board in writing.

(C) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a U.S. intermediate holding company described in paragraph (c)(2)(i)(A) or (B) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(ii) Bank holding company subsidiaries of U.S. intermediate holding companies required to be established by July 1, 2016. (A) Notwithstanding any other requirement in this section, a bank holding company that is a subsidiary of a U.S. intermediate holding company (or, with the mutual consent of the company and Board, another bank holding company domiciled in the United States) shall remain subject to paragraph (e) of this section until December 31, 2017, and shall remain subject to the requirements of paragraphs (f) and (g) of this section until the Board issues an objection or non-objection to the capital plan of the relevant U.S. intermediate holding company.

(B) After the time periods set forth in paragraph (c)(2)(ii)(A) of this section, this section will cease to apply to a bank holding company that is a subsidiary of a U.S. intermediate holding company, unless otherwise determined by the Board in writing.

(d) *Definitions.* For purposes of this section, the following definitions apply:

(1) *Advanced approaches* means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable, and any successor regulation.

(2) *Average total nonbank assets* means:

(i) For purposes of the capital plan cycle beginning January 1, 2017:

(A) Total combined nonbank assets of nonbank subsidiaries, as reported on line 15a of Schedule PC-B of the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) as of December 31, 2016; plus

(B) The total amount of equity investments in nonbank subsidiaries and associated companies as reported on line 2a of Schedule PC-A of the FR Y-9LP as of December 31, 2016 (except that any investments reflected in (A) may be eliminated); plus

(C) Assets of each Edge and Agreement Corporation, as reported on the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) as of December 31, 2016, to the extent such corporation is designated as “Nonbanking” in the box on the front page of the FR 2886b; minus

(D) Assets of each federal savings association, federal savings bank, or thrift subsidiary, as reported on the Report of Condition and Income (Call Report) as of December 31, 2016.

(ii) For purposes of any capital plan cycles beginning on or after January 1, 2018, the average of the total nonbank assets of a holding company subject to the Federal Reserve Board’s capital plan rule, calculated in accordance with the instructions to the FR Y-9LP, for the four most recent consecutive quarters or, if the bank holding company has not filed the FR

Y-9LP for each of the four most recent consecutive quarters, for the most recent quarter or consecutive quarters, as applicable.

(3) *BHC stress scenario* means a scenario designed by a bank holding company that stresses the specific vulnerabilities of the bank holding company's risk profile and operations, including those related to the company's capital adequacy and financial condition.

(4) *Capital action* means any issuance or redemption of a debt or equity capital instrument, any capital distribution, and any similar action that the Federal Reserve determines could impact a bank holding company's consolidated capital.

(5) *Capital distribution* means a redemption or repurchase of any debt or equity capital instrument, a payment of common or preferred stock dividends, a payment that may be temporarily or permanently suspended by the issuer on any instrument that is eligible for inclusion in the numerator of any minimum regulatory capital ratio, and any similar transaction that the Federal Reserve determines to be in substance a distribution of capital.

(6) *Capital plan* means a written presentation of a bank holding company's capital planning strategies and capital adequacy process that includes the mandatory elements set forth in paragraph (e)(2) of this section.

(7) *Capital plan cycle* means the period beginning on January 1 of a calendar year and ending on December 31 of that year.

(8) *Capital policy* means a bank holding company's written assessment of the principles and guidelines used for capital planning, capital issuance, capital usage and distributions, including internal capital goals; the quantitative or qualitative guidelines for capital distributions; the strategies for addressing potential capital shortfalls; and the internal governance procedures around capital policy principles and guidelines.

(9) *Large and noncomplex bank holding company* means any bank holding company subject to this section that has, as of December 31 of the calendar year prior to the capital plan cycle:

(i) Average total consolidated assets of less than \$250 billion;

(ii) Consolidated total on-balance sheet foreign exposure at the most recent year-end equal to less than \$10 billion (where total on-balance sheet foreign exposure equals total foreign countries cross-border claims on an ultimate-risk basis, plus total foreign countries claims on local residents on an ultimate-risk basis, plus total foreign countries fair value of foreign exchange and derivative products, calculated in accordance with the Federal Financial Institutions Examination Council (FFIEC) 009 Country Exposure Report); and

(iii) Average total nonbank assets of less than \$75 billion.

(10) *Minimum regulatory capital ratio* means any minimum regulatory capital ratio that the Federal Reserve may require of a bank holding company, by regulation or order, including the bank holding company's tier 1 and supplementary leverage ratios as calculated under 12 CFR part 217, including the deductions required under 12 CFR 248.12, as applicable, and the bank holding company's common equity tier 1, tier 1, and total risk-based capital ratios as calculated under 12 CFR part 217, including the deductions required under 12 CFR 248.12 and the transition provisions at 12 CFR 217.1(f)(4) and 217.300; except that the bank holding company shall not use the advanced approaches to calculate its regulatory capital ratios.

(11) *Nonbank financial company supervised by the Board* means a company that the Financial Stability Oversight Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(12) *Planning horizon* means the period of at least nine consecutive quarters, beginning with the quarter preceding the quarter in which the bank holding company submits its capital plan, over which the relevant projections extend.

(13) *Tier 1 capital* has the same meaning as under 12 CFR part 217.

(14) *U.S. intermediate holding company* means the top-tier U.S. company that is required to be established pursuant to 12 CFR 252.153.

(e) *General requirements.* (1) *Annual capital planning.* (i) A bank holding company must develop and maintain a capital plan.

(ii) A bank holding company must submit its complete capital plan to the Board and the appropriate Reserve Bank by April 5 of each calendar year, or such later date as directed by the Board or by the appropriate Reserve Bank with concurrence of the Board.

(iii) The bank holding company's board of directors or a designated committee thereof must at least annually and prior to submission of the capital plan under paragraph (e)(1)(ii) of this section:

(A) Review the robustness of the bank holding company's process for assessing capital adequacy,

(B) Ensure that any deficiencies in the bank holding company's process for assessing capital adequacy are appropriately remedied; and

(C) Approve the bank holding company's capital plan.

(2) *Mandatory elements of capital plan.* A capital plan must contain at least the following elements:

(i) An assessment of the expected uses and sources of capital over the planning horizon that reflects the bank holding company's size, complexity, risk profile, and scope of operations, assuming both expected and stressful conditions, including:

(A) Estimates of projected revenues, losses, reserves, and pro forma capital levels, including any minimum regulatory capital ratios (for example, leverage, tier 1 risk-based, and total risk-based capital ratios) and any additional capital measures deemed relevant by the bank holding company, over the planning horizon under expected conditions and under a range of scenarios, including any scenarios provided by the Federal Reserve and at least one BHC stress scenario;

(B) A discussion of the results of any stress test required by law or regulation, and an explanation of how the capital plan takes these results into account; and

(C) A description of all planned capital actions over the planning horizon.

(ii) A detailed description of the bank holding company's process for assessing capital adequacy, including:

(A) A discussion of how the bank holding company will, under expected and stressful conditions, maintain capital commensurate with its risks, maintain capital above the minimum regulatory capital ratios, and serve as a source of strength to its subsidiary depository institutions;

(B) A discussion of how the bank holding company will, under expected and stressful conditions, maintain sufficient capital to continue its operations by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve as a credit intermediary;

(iii) The bank holding company's capital policy; and

(iv) A discussion of any expected changes to the bank holding company's business plan that are likely to have a material impact on the bank holding company's capital adequacy or liquidity.

(3) *Data collection.* Upon the request of the Board or appropriate Reserve Bank, the bank holding company shall provide the Federal Reserve with information regarding:

(i) The bank holding company's financial condition, including its capital;

(ii) The bank holding company's structure;

(iii) Amount and risk characteristics of the bank holding company's on- and off-balance sheet exposures, including exposures within the bank holding company's trading account, other trading-related exposures (such as counterparty-credit risk exposures) or other items sensitive to changes in market factors, including, as appropriate, information about the sensitivity of positions to changes in market rates and prices;

(iv) The bank holding company's relevant policies and procedures, including risk management policies and procedures;

(v) The bank holding company's liquidity profile and management;

(vi) The loss, revenue, and expense estimation models used by the bank holding company for stress scenario analysis, including supporting documentation regarding each model's development and validation; and

(vii) Any other relevant qualitative or quantitative information requested by the Board or by the appropriate Reserve Bank to facilitate review of the bank holding company's capital plan under this section.

(4) *Re-submission of a capital plan.* (i) A bank holding company must update and re-submit its capital plan to the appropriate Reserve Bank within 30 calendar days of the occurrence of one of the following events:

(A) The bank holding company determines there has been or will be a material change in the bank holding company's risk profile, financial condition, or corporate structure since the bank holding company last submitted the capital plan to the Board and the appropriate Reserve Bank under this section; or

(B) The Board or the appropriate Reserve Bank with concurrence of the Board, directs the bank holding company in writing to revise and resubmit its capital plan for any of the following reasons:

(1) The capital plan is incomplete or the capital plan, or the bank holding company's internal capital adequacy process, contains material weaknesses;

(2) There has been, or will likely be, a material change in the bank holding company's risk profile (including a material change in its business strategy or any risk exposure), financial condition, or corporate structure;

(3) The BHC stress scenario(s) are not appropriate for the bank holding company's business model and portfolios, or changes in financial markets or the macro-economic outlook that could have a material impact on a bank holding company's risk profile and financial condition require the use of updated scenarios; or

(4) The capital plan or the condition of the bank holding company raise any of the issues described in paragraph (f)(2)(ii) of this section.

(ii) A bank holding company may resubmit its capital plan to the Federal Reserve if the Board or the appropriate Reserve Bank objects to the capital plan.

(iii) The Board or the appropriate Reserve Bank with concurrence of the Board, may extend the 30-day period in paragraph (e)(4)(i) of this section for up to an additional 60 calendar days, or such longer period as the Board or the appropriate Reserve Bank, with concurrence of the Board, determines, in its discretion, appropriate.

(iv) Any updated capital plan must satisfy all the requirements of this section; however, a bank holding company may continue to rely on information submitted as part of a previously submitted capital plan to the extent that the information remains accurate and appropriate.

(5) *Confidential treatment of information submitted.* The confidentiality of information submitted to the Board under this section and related materials shall be determined in accordance with applicable exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

(f) *Review of capital plans by the Federal Reserve; publication of summary results.* (1) *Considerations and inputs.* (i) The Board or the appropriate Reserve Bank with concurrence of the Board, will consider the following factors in reviewing a bank holding company's capital plan:

(A) The comprehensiveness of the capital plan, including the extent to which the analysis underlying the capital plan captures and addresses potential risks stemming from activities across the firm and the company's capital policy;

(B) The reasonableness of the bank holding company's capital plan, the assumptions and analysis underlying the capital plan, and the robustness of its capital adequacy process; and

(C) The bank holding company's ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout

the planning horizon, including but not limited to any scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(ii) of this section.

(ii) The Board or the appropriate Reserve Bank with concurrence of the Board, will also consider the following information in reviewing a bank holding company's capital plan:

(A) Relevant supervisory information about the bank holding company and its subsidiaries;

(B) The bank holding company's regulatory and financial reports, as well as supporting data that would allow for an analysis of the bank holding company's loss, revenue, and reserve projections;

(C) As applicable, the Federal Reserve's own pro forma estimates of the firm's potential losses, revenues, reserves, and resulting capital adequacy under expected and stressful conditions, including but not limited to any scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(ii) of this section, as well as the results of any stress tests conducted by the bank holding company or the Federal Reserve; and

(D) Other information requested or required by the Board or the appropriate Reserve Bank, as well as any other information relevant, or related, to the bank holding company's capital adequacy.

(2) *Federal Reserve action on a capital plan.* (i) *Timing of action.* The Board or the appropriate Reserve Bank with concurrence of the Board, will object, in whole or in part, to the capital plan or provide the bank holding company with a notice of non-objection to the capital plan:

(A) By June 30 of the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section; and

(B) For a capital plan resubmitted pursuant to paragraph (e)(4) of this section, within 75 calendar days after the date on which a capital plan is resubmitted, unless the Board provides notice to the company that it is extending the time period.

(ii) *Objection.* (A) *Large and noncomplex bank holding companies.* The Board, or the appropriate Reserve Bank with concurrence of the Board, may object to a capital plan submitted by a large and noncomplex bank holding company if it determines that the bank holding company has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon.

(B) *Bank holding companies that are not large and noncomplex bank holding companies.* The Board or the appropriate Reserve Bank with concurrence of the Board, may object to a capital plan submitted by a bank holding company that is not a large and noncomplex bank holding company if it determines that:

(1) The bank holding company has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon;

(2) The bank holding company has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process;

(3) The assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies and practices that support its capital planning process, are not reasonable or appropriate; or

(4) The bank holding company's capital planning process or proposed capital distributions otherwise constitute an unsafe or unsound practice, or would violate any law,

regulation, Board order, directive, or condition imposed by, or written agreement with, the Board or the appropriate Reserve Bank. In determining whether a capital plan or any proposed capital distribution would constitute an unsafe or unsound practice, the Board or the appropriate Reserve Bank would consider whether the bank holding company is and would remain in sound financial condition after giving effect to the capital plan and all proposed capital distributions.

(iii) *Notification of decision.* The Board or the appropriate Reserve Bank will notify the bank holding company in writing of the reasons for a decision to object to a capital plan.

(iv) *General distribution limitation.* If the Board or the appropriate Reserve Bank objects to a capital plan and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board, issues a non-objection to the bank holding company's capital plan, the bank holding company may not make any capital distribution, other than capital distributions arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio or capital distributions with respect to which the Board or the appropriate Reserve Bank has indicated in writing its non-objection.

(v) *Publication of summary results.* The Board may disclose publicly its decision to object or not object to a bank holding company's capital plan under this section, along with a summary of the Board's analyses of that company. Any disclosure under this paragraph will occur by June 30 of the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section, unless the Board determines that a later disclosure date is appropriate.

(3) *Request for reconsideration or hearing.* (i) *General.* Within 15 calendar days of receipt of a notice of objection to a capital plan by the Board or the appropriate Reserve Bank:

(A) A bank holding company may submit a written request to the Board requesting reconsideration of the objection, including an explanation of why reconsideration should be granted. Within 15 calendar days of receipt of the bank holding company's request, the Board will notify the company of its decision to affirm or withdraw the objection to the bank holding company's capital plan or a specific capital distribution; or

(B) As an alternative to paragraph (f)(3)(i)(A) of this section, a bank holding company may request an informal hearing on the objection.

(ii) *Request for an informal hearing.* (A) A request for an informal hearing shall be in writing and shall be submitted within 15 calendar days of a notice of an objection. The Board may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(B) An informal hearing shall be held within 30 calendar days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(C) Written notice of the final decision of the Board shall be given to the bank holding company within 60 calendar days of the conclusion of any informal hearing ordered by the Board, provided that the Board may extend this period upon notice to the requesting party.

(D) While the Board's final decision is pending and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board issues a non-objection to the bank holding company's capital plan, the bank holding company may not make any capital distribution, other than those capital distributions with respect to which the Board or the appropriate Reserve Bank has indicated in writing its non-objection.

(4) *Application of this section to other bank holding companies.* The Board may apply this section, in whole or in part, to any other bank holding company by order based on the institution's size, level of complexity, risk profile, scope of operations, or financial condition.

(g) *Approval requirements for certain capital actions.* (1) *Circumstances requiring approval.* Notwithstanding a notice of non-objection under paragraph (f)(2)(i) of this section, a bank holding company may not make a capital distribution (excluding any capital distribution arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio) under the following circumstances, unless it receives prior approval from the Board or appropriate Reserve Bank pursuant to paragraph (g)(5) of this section:

(i) After giving effect to the capital distribution, the bank holding company would not meet a minimum regulatory capital ratio;

(ii) The Board or the appropriate Reserve Bank with concurrence of the Board, notifies the company in writing that the Federal Reserve has determined that the capital distribution would result in a material adverse change to the organization's capital or liquidity structure or that the company's earnings were materially underperforming projections;

(iii) Except as provided in paragraph (g)(2) of this section, the dollar amount of the capital distribution will exceed the amount described in the capital plan for which a non-objection was issued under this section, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the quarter at issue; or

(iv) The capital distribution would occur after the occurrence of an event requiring resubmission under paragraphs (e)(4)(i)(A) or (B) of this section and before the Federal Reserve has acted on the resubmitted capital plan.

(2) *Exception for well capitalized bank holding companies.* (i) A bank holding company may make a capital distribution for which the dollar amount exceeds the amount described in the capital plan for which a non-objection was issued under paragraph (f)(2)(i) of this section if the following conditions are satisfied:

(A) The bank holding company is, and after the capital distribution would remain, well capitalized as defined in §225.2(r) of Regulation Y (12 CFR 225.2(r));

(B) The bank holding company's performance and capital levels are, and after the capital distribution would remain, consistent with its projections under expected conditions as set forth in its capital plan under paragraph (f)(2)(i) of this section;

(C) Until March 31, 2017, the annual aggregate dollar amount of all capital distributions in the period beginning on July 1 of a calendar year and ending on June 30 of the following calendar year would not exceed the total amounts described in the company's capital plan for which the bank holding company received a notice of non-objection by more than 1.00 percent multiplied by the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's most recent first-quarter FR Y-9C;

(D) Beginning April 1, 2017, the annual aggregate dollar amount of all capital distributions in the period beginning on July 1 of a calendar year and ending on June 30 of the following calendar year would not exceed the total amounts described in the company's capital plan for which the bank holding company received a notice of non-objection by more than 0.25 percent multiplied by the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's most recent first-quarter FR Y-9C;

(E) Between July 1 of a calendar year and March 15 of the following calendar year, the bank holding company provides the appropriate Reserve Bank with notice 15 calendar days

prior to a capital distribution that includes the elements described in paragraph (g)(4) of this section; and

(F) The Board or the appropriate Reserve Bank with concurrence of the Board, does not object to the transaction proposed in the notice. In determining whether to object to the proposed transaction, the Board or the appropriate Reserve Bank shall apply the criteria described in paragraph (g)(5)(ii) of this section.

(ii) The exception in this paragraph (g)(2) shall not apply if the Board or the appropriate Reserve Bank notifies the bank holding company in writing that it is ineligible for this exception.

(3) *Net distribution limitation.* (i) *General.* Notwithstanding a notice of non-objection under paragraph (f)(2)(i) of this section, a bank holding company must reduce its capital distributions in accordance with paragraph (g)(3)(ii) of this section if the bank holding company raises a smaller dollar amount of capital of a given category of regulatory capital instruments than it had included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter.

(ii) *Reduction of distributions.* (A) *Common equity tier 1 capital.* If the bank holding company raises a smaller dollar amount of common equity tier 1 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to common equity tier 1 capital such that the dollar amount of the bank holding company's capital distributions, net of the dollar amount of its capital raises, ("net distributions") relating to common equity tier 1 capital is no greater than the dollar amount of net distributions relating to common equity tier 1 capital included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter.

(B) *Additional tier 1 capital.* If the bank holding company raises a smaller dollar amount of additional tier 1 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to additional tier 1 capital (other than scheduled payments on additional tier 1 capital instruments) such that the dollar amount of the bank holding company's net distributions relating to additional tier 1 capital is no greater than the dollar amount of net distributions relating to additional tier 1 capital included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter.

(C) *Tier 2 capital.* If the bank holding company raises a smaller dollar amount of tier 2 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to tier 2 capital (other than scheduled payments on tier 2 capital instruments) such that the dollar amount of the bank holding company's net distributions relating to tier 2 capital is no greater than the dollar amount of net distributions relating to tier 2 capital included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter.

(iii) *Exceptions.* Paragraphs (g)(3)(i) and (g)(3)(ii) of this section shall not apply:

(A) To the extent that the Board or appropriate Reserve Bank indicates in writing its non-objection pursuant to paragraph (g)(5) of this section, following a request for non-objection from the bank holding company that includes all of the information required to be submitted under paragraph (g)(4) of this section;

(B) To capital distributions arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio that the bank holding company had not included in its capital plan;

(C) To the extent that the bank holding company raised a smaller dollar amount of capital in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section due to employee-directed capital issuances related to an employee stock ownership plan;

(D) To the extent that the bank holding company raised a smaller dollar amount of capital in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section due to a planned merger or acquisition that is no longer expected to be consummated or for which the consideration paid is lower than the projected price in the capital plan;

(E) Until March 31, 2017, to the extent that the dollar amount by which the bank holding company's net distributions exceed the dollar amount of net distributions included in its capital plan in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter, is less than 1.00 percent of the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's most recent first-quarter FR Y-9C; between July 1 of a calendar year and March 15 of the following calendar year, the bank holding company provides the appropriate Reserve Bank with notice 15 calendar days prior to any capital distribution in that category of regulatory capital instruments that includes the elements described in paragraph (g)(4) of this section; and the Board or the appropriate Reserve Bank with concurrence of the Board, does not object to the transaction proposed in the notice. In determining whether to object to the proposed transaction, the Board or the appropriate Reserve Bank shall apply the criteria described in paragraph (g)(5)(ii) of this section; or

(F) Beginning April 1, 2017, to the extent that the dollar amount by which the bank holding company's net distributions exceed the dollar amount of net distributions included in its capital plan in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter, is less than 0.25 percent of the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's most recent first-quarter FR Y-9C; between July 1 of a calendar year and March 15 of the following calendar year, the bank holding company provides the appropriate Reserve Bank with notice 15 calendar days prior to any capital distribution in that category of regulatory capital instruments that includes the elements described in paragraph (g)(4) of this section; and the Board or the appropriate Reserve Bank with concurrence of the Board, does not object to the transaction proposed in the notice. In determining whether to object to the proposed transaction, the Board or the appropriate Reserve Bank shall apply the criteria described in paragraph (g)(5)(ii) of this section.

(iv) The exceptions in paragraph (g)(3)(iii) shall not apply if the Board or the appropriate Reserve Bank notifies the bank holding company in writing that it is ineligible for this exception.

(4) *Contents of request.* (i) A request for a capital distribution under this section shall be filed between July 1 of a calendar year and March 1 of the following calendar year with the appropriate Reserve Bank and the Board and shall contain the following information:

(A) The bank holding company's current capital plan or an attestation that there have been no changes to the capital plan since it was last submitted to the Federal Reserve;

(B) The purpose of the transaction;

(C) A description of the capital distribution, including for redemptions or repurchases of securities, the gross consideration to be paid and the terms and sources of funding for the transaction, and for dividends, the amount of the dividend(s); and

(D) Any additional information requested by the Board or the appropriate Reserve Bank (which may include, among other things, an assessment of the bank holding company's capital adequacy under a revised stress scenario provided by the Federal Reserve, a revised capital plan, and supporting data).

(ii) Any request submitted with respect to a capital distribution described in paragraph (g)(1)(i) of this section shall also include a plan for restoring the bank holding company's capital to an amount above a minimum level within 30 calendar days and a rationale for why the capital distribution would be appropriate.

(5) *Approval of certain capital distributions.* (i) The Board or the appropriate Reserve Bank with concurrence of the Board, will act on a request under this paragraph (g)(5) within 30 calendar days after the receipt of all the information required under paragraph (g)(4) of this section.

(ii) In acting on a request under this paragraph, the Board or appropriate Reserve Bank will apply the considerations and principles in paragraph (f) of this section. In addition, the Board or the appropriate Reserve Bank may disapprove the transaction if the bank holding company does not provide all of the information required to be submitted under paragraph (g)(4) of this section.

(6) *Disapproval and hearing.* (i) The Board or the appropriate Reserve Bank will notify the bank holding company in writing of the reasons for a decision to disapprove any proposed

capital distribution. Within 15 calendar days after receipt of a disapproval by the Board, the bank holding company may submit a written request for a hearing.

(A) The Board may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(B) An informal hearing shall be held within 30 calendar days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(C) Written notice of the final decision of the Board shall be given to the bank holding company within 60 calendar days of the conclusion of any informal hearing ordered by the Board, provided that the Board may extend this period upon notice to the requesting party.

(D) While the Board's final decision is pending and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board, approves the capital distribution at issue, the bank holding company may not make such capital distribution.

PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)

3. The authority citation for part 252 continues to read as follows:

Authority: 12 U.S.C. 321-338a, 1467a(g), 1818, 1831p-1, 1844(b), 1844(c), 5361, 5365, 5366.

4. Section 252.42 is amended by revising paragraph (p) to read as follows:

§252.42 Definitions.

* * * * *

(p) *Stress test cycle* means the period beginning on January 1 of a calendar year and ending on December 31 of that year.

* * * * *

5. Section 252.43 is amended by

a. Revising paragraph (b); and

b. Removing paragraph (c).

The revision reads as follows:

§252.43 Applicability.

* * * * *

(b) *Transitional arrangements.* (1) A bank holding company that becomes a covered company on or before September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the second calendar year after the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

(2) A bank holding company that becomes a covered company after September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the third calendar year after the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

6. Section 252.44 is amended by revising paragraph (b) to read as follows:

§252.44 Annual analysis conducted by the Board.

* * * * *

(b) *Economic and financial scenarios related to the Board's analysis.* The Board will conduct its analysis under this section using a minimum of three different scenarios, including a baseline scenario, adverse scenario, and severely adverse scenario. The Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than February 15 of each year, except with respect to trading or any

other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than March 1 of that year.

7. Section 252.46 is amended by revising paragraph (b)(1) to read as follows:

§252.46 Review of the Board’s analysis; publication of summary results.

* * * * *

(b) *Publication of results by the Board.* (1) The Board will publicly disclose a summary of the results of the Board’s analyses of a covered company by June 30 of the calendar year in which the stress test was conducted pursuant to 12 CFR 252.44.

* * * * *

8. Section 252.52 is amended by revising paragraphs (k) and (r) to read as follows:

§252.52 Definitions.

* * * * *

(k) *Planning horizon* means the period of at least nine consecutive quarters, beginning on the first day of a stress test cycle over which the relevant projections extend.

* * * * *

(r) *Stress test cycle* means the period beginning on January 1 of a calendar year and ending on December 31 of that year.

* * * * *

9. Section 252.53 is amended by revising paragraph (b) to read as follows:

§252.53 Applicability.

* * * * *

(b) *Transitional arrangements.* (1) A bank holding company that becomes a covered company on or before September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the second calendar year after the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

(2) A bank holding company that becomes a covered company after September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the third calendar year after the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

10. Section 252.54 is amended by revising paragraphs (a), (b)(1), (b)(2)(i), (b)(4)(i), and (b)(4)(iii) to read as follows:

§252.54 Annual stress test.

(a) *In general.* A covered company must conduct an annual stress test. The stress test must be conducted by April 5 of each calendar year based on data as of December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) *Scenarios provided by the Board.* (1) *In general.* In conducting a stress test under this section, a covered company must, at a minimum, use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (3) of this section, the Board will provide a description of the scenarios to each covered company no later than February 15 of the calendar year in which the stress test is performed pursuant to this section.

(2) *Additional components.* (i) The Board may require a covered company with significant trading activity, as determined by the Board and specified in the Capital Assessments and Stress Testing report (FR Y-14), to include a trading and counterparty

component in its adverse and severely adverse scenarios in the stress test required by this section:

(A) For the stress test cycle beginning on January 1, 2017, the data used in this component must be as of a date selected by the Board between January 1, 2017 and March 1, 2017, and the Board will communicate the as-of date and a description of the component to the company no later than March 1, 2017; and

(B) For the stress test cycle beginning on January 1, 2018, and for each stress test cycle beginning thereafter, the data used in this component must be as of a date selected by the Board between October 1 of the previous calendar year and March 1 of the calendar year in which the stress test is performed pursuant to this section, and the Board will communicate the as-of date and a description of the component to the company no later than March 1 of the calendar year in which the stress test is performed pursuant to this section.

* * * * *

(4) *Notice and response*—(i) *Notification of additional component*. If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or to use one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. The Board will provide such notification no later than December 31 of the preceding calendar year. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).

* * * * *

(iii) *Description of component.* The Board will respond in writing within 14 calendar days of receipt of the company's request. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by March 1 of the calendar year in which the stress test is performed pursuant to this section.

11. Section 252.55 is amended by revising paragraphs (a), (b)(4)(i), and (b)(4)(iii) to read as follows:

§252.55 Mid-cycle stress test.

(a) *Mid-cycle stress test requirement.* In addition to the stress test required under §252.54, a covered company must conduct a mid-cycle stress test. The stress test must be conducted by September 30 of each calendar year based on data as of June 30 of that calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) * * *

(4) *Notice and response*—(i) *Notification of additional component.* If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. The Board will provide such notification no later than June 30. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).

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(iii) *Description of component.* The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by September 1 of the calendar year prior to the year in which the stress test is performed pursuant to this section.

12. Section 252.57 is amended by revising paragraph (a) to read as follows:

§252.57 Reports of stress test results.

(a) *Reports to the Board of stress test results.* (1) A covered company must report the results of the stress test required under §252.54 to the Board in the manner and form prescribed by the Board. Such results must be submitted by April 5 of the calendar year in which the stress test is performed pursuant to 12 CFR 252.54, unless that time is extended by the Board in writing.

(2) A covered company must report the results of the stress test required under §252.55 to the Board in the manner and form prescribed by the Board. Such results must be submitted by October 5 of the calendar year in which the stress test is performed pursuant to 12 CFR 252.55, unless that time is extended by the Board in writing.

* * * * *

13. Section 252.58 is amended by revising paragraph (a)(1)(ii) to read as follows:

§252.58 Disclosure of stress test results.

(a) * * *

(1) * * *

(ii) A covered company must publicly disclose a summary of the results of the stress test required under §252.55. This disclosure must occur in the period beginning on October 5 and ending on November 4 of the calendar year in which the stress test is performed pursuant to 12 CFR 252.55, unless that time is extended by the Board in writing.

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By order of the Board of Governors of the Federal Reserve System, September 26, 2016.

Robert deV. Frierson,
Secretary of the Board.

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